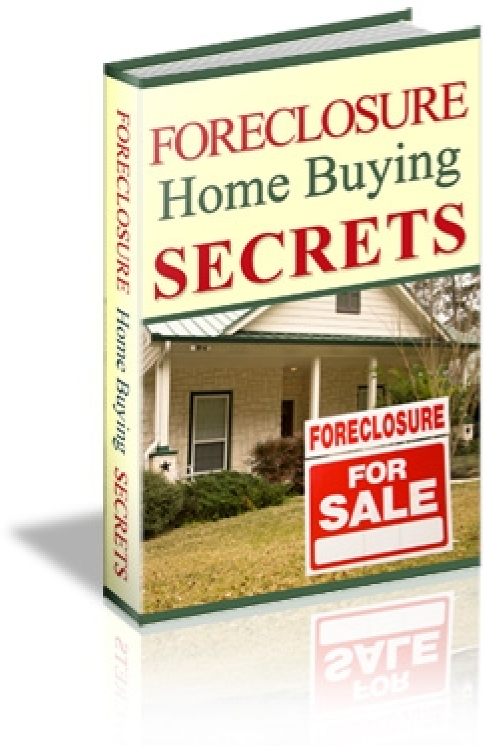
# Foreclosure Home Buying Secrets




**How to Find, Research and Buy Choice Foreclosure Properties at Bargain Basement Prices!**

**By Nitya M. Grenham**

# Foreclosure Home Buying Secrets



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# Chapter Index

# Introduction

## Welcome to the World of Foreclosure Investing!

Hi, my name is Nitya M. Grenham, and I'd like to welcome you to Foreclosure Home Buying Secrets.

I'm really excited about this manual. And that's because you're about to discover everything you need to know about finding, researching and buying property that's in foreclosure. End result: You'll soon know how to get real estate property for well below the market value!

While you're likely to find quite a few properties for 5% to 10% below market value, even bigger bargains are out there (if you know where to look). You can find properties for 20%, 30%, 40% or even more below market value! Even if you have to invest a small amount for repairs or maintenance, you're still getting a great deal. And that means more money in your pocket, whether you're purchasing a foreclosure property:

For your own personal residence or vacation home.
As a rental unit.
As a long-term investment that you can sell later.
Or even as a short-term investment that you flip for fast profits!

This is getting pretty exciting, right? So let's get to it. First, allow me to give you an overview of what you'll learn within the pages of this manual:

- You'll learn all about foreclosures, the timeline and the steps involved in the process.

- You'll discover at what points during the foreclosure process you can purchase a home. (Hint: Most people think the only place to buy a foreclosure property is at auction – you'll discover cheaper and safer ways to get your hands on these same properties!)

- You'll find out how to select the right real estate agent – and why it's risky to get into foreclosure buying without one.

- You'll find out where to get lists of properties going into foreclosure.
- You'll discover how to avoid buying damaged properties, properties with taxes and liens you'll need to satisfy in order to get a clean title and other things that can wipe out your savings.
- You'll discover how a typical foreclosure auction works, and what you need to bring to the auction in order to be a qualified bidder.
- You'll find out a quick and easy way to determine how much you should bid so that you come out with a great deal.
- You'll learn about the market trends and forecasts to find out when is the best time to buy foreclosure properties.
- You'll learn about what you have to do after buying the property, such as closing the deal, getting insurance, evicting the former owners and more.

And much, much more! By the time you finish this book, you'll be confident in your abilities to secure a great property at an amazing price! Here's how to get started …

## Chapter 1

## What is a Foreclosure?

First, let's define some of the terminology that you'll see in this book and in your business dealings with foreclosure attorneys, trustees, banks and so on …

**Foreclosure**: A foreclosure is a legal process whereby a creditor repossesses collateral for a loan that's in default. In most cases, that means the bank or mortgage lender repossesses a house so that they can resell it to satisfy the debt.

Usually, they put the home up on auction, with a minimum or reserve bid equal to the amount of money they need to clear their debt and associated fees. This amount tends to be below market value, which is why you have the opportunity to get a good deal. However, the property is usually sold "as is" (and in most cases, buyers are unable to inspect the inside of the property).

This sale is referred to as the **foreclosure auction.**

**Pre-foreclosure**: This is the period before the property goes on sale at the foreclosure auction. The pre-foreclosure period allows time for you to research the property and possibly contact the homeowners with a deal (more about this later).

For the homeowners, it's also the period of time where they may be able to save their home from foreclosure, provided they can satisfy the debt and all fees. This period of time happens before the foreclosure auction and is referred to as the **reinstatement period**.

**Redemption Period:** In some states, there is a redemption period lasting from a few weeks to several months *after* the sale of a home at a foreclosure auction. If the original homeowner can satisfy the debt during this period, then they can reclaim (redeem) the property.

**Real Estate Owned (REO):** If no one bids the minimum amount at a foreclosure auction, then the bank owns the property. This property is listed as REO in their records. Since a bank is in the business of loaning money not holding onto real estate, the bank will try to move this property off their books.

Buying REO property tends to be a safer transaction (as opposed to buying at a foreclosure auction), since the bank often – but not always – makes repairs and ensures they give you a clear title. If that happens, then you can expect to pay more for the property to cover those additional expenses. Otherwise, if the bank doesn't do these things, then you can usually buy the property for less than the opening bid at the original foreclosure auction.

**Short Sale**: A short sale occurs when the bank or other lender agrees to take less than the total amount owed on the loan to satisfy that debt.

One of the reasons a lender would agree to this is to avoid a foreclosure. Obviously, a short sale helps the borrower since they can avoid losing their home and further damaging their credit. But in some cases, it makes sense for the bank as well, since they won't have to put the time and money into going through the foreclosure process.

**Distressed Property**: This refers to any real estate property that's at risk of foreclosure or perhaps already in foreclosure.

Now that we've defined some of these common terms, let's look at the process in a little more depth …

## How the Foreclosure Process Works

Let me say this up front: Different states have different foreclosure laws. So while you'll get a good overview of how the foreclosure process works by reading this book (and how you can benefit), you MUST check your local laws before you start buying foreclosed homes.

Because the laws differ between states, you'll find that the timing can greatly differ. For example:

- Some lenders start foreclosure proceedings when a debt is past due 90 days, while other lenders wait more time or less time.

- In some states, you can get the title and close on the property within a few days or weeks after a foreclosure auction, while in other cases it may take months or even a year for you to get the title and take possession of the property.

- In some states, the original homeowner has little or no redemption period after the auction, meaning you can take possession almost immediately. In other states, you'll want to hold off on putting any money into the property, as the homeowner might still redeem their property.

- If there are people living in the home, you may have to start an eviction process. In some states, this process may take just a couple weeks. In other states, it may drag on for months. (Although later in this book, you'll discover how to expedite the process so that the tenants are happy to leave.)

Again, check your local laws for the details.

For your general information, here's how the process works. Look at this timeline first, and then in a moment I'll explain these steps in more detail …

## Foreclosure Process Timeline

**Start of the process:** Homeowner (borrower) falls behind on mortgage payments

**60–180 days later:** Lender starts foreclosure process by filing Notice of Default

*Note: Reinstatement period begins after NOD is filed.*

**90 days later:** Lender files Notice of Sale (NOS)

**21 days later:** House goes up for bidding at foreclosure auction

*Note: At this point the timeline differs depending on whether:*

- *A: someone wins the property or…*
- *B: No one wins the property at auction (because no one placed the minimum bid).*

*Here are timelines for both those scenarios:*

***A. If someone wins property at auction, then:***

**Immediately after bidding:** Winner pays down payment on property

**24 hours–60 days later:** Winner pays balance owed on the property

*Note: Redemption period begins in some states, lasting 10 days to one year.*

**Two weeks to one year later:** Winner takes title on the property and in some cases also takes possession.

**One week to six months later:** If need be, winner evicts occupants from property and takes possession of the house.

***B. If no one wins the property at auction, then:***

Immediately: If no one bids, then lender's attorney "buys back" the property at the auction – bank immediately becomes "bank owned" property (also known as REO – Real Estate Owned – property).

Immediately: Investors can submit offers to the lender for the REO property, even while it's still in "as is" condition. However, you may submit contingencies with your offer.

Two weeks to six months later Some lenders *may* repair home, offer a clean title and list it for sale. (But note that you can make offers at any time during this process.)

Now let's go over this process in a little more detail …

### *1. Borrower falls behind on payments.*

The borrower may fall behind on payments for a variety of reasons, including divorce, death in the family, losing a job, health problems, unforeseen major expenses, legal problems and more. Add the original problem to the new debt problems, and you can see where this quickly becomes a stressful situation for the borrower.

**Falling Behind**

The borrower may be falling behind on other payments as well, and this can create a "snowball effect" in which the back payments and penalties can become overwhelming. While you might think a home owner would be more than willing to work with the lender or another home buyer at this point, sometimes that's not the case. Indeed, at this point some homeowners go into a state of denial and avoid contact with their lenders as well as anyone contacting them about their home.

In short, they're stressed, overwhelmed and scared. They begin to think that ignoring the problem will make it go away. At the very least, ignoring the problem means they won't have to deal with creditors hounding them on a daily basis.

Two reasons I'm telling you about the homeowner's state of mind:

**Reason No. 1:** If you decide to work with homeowners directly during the pre-foreclosure period, you need to be aware that they may be very resistant to anything you say (at least initially), because they could be in a state of denial or a state of panic, either of which doesn't allow them to think about their situation rationally. Let me give you an extreme example:

Suppose you're driving down the highway, and an accident happens right in front of you. The drivers get out of the cars, injured and bleeding. You stop and tell a stunned driver, "I'd like to buy your car."

What would happen?

The driver would likely ignore you. He's still in shock about what's just happened, so he can't think about your offer rationally. Even if you're offering him more money than the insurance company would give him for his totaled car, it's not something he can even consider at the moment.

The same for a homeowner who's going through an emotionally draining foreclosure. He too may feel stunned and "injured." And that makes him less responsive to your offer, which brings me to my next point.

**Reason No. 2:** Because the homeowner is being hounded by creditors, you may find it very difficult to even get in contact with him (as he's likely not answering his phone or reading any mail that looks like it's from a creditor). It's not impossible, but just be prepared for the fact that some homeowners will be difficult to contact.

We'll talk about investing in pre-foreclosure properties later in this book. For now, let's get back to our overview of the foreclosure process.

When the borrower initially falls behind on the loan (mortgage) payments, he or she usually has a 10 to 15 day grace period to make the payment without penalty. After that time, late penalties and fees begin to accrue.

After about 30 days, the bank will begin sending urgent notices to the borrower, and the late payment may show up on the borrower's credit report. At 60 and 90 days the payments are accumulating along with interest and penalties, and the lender usually continues sending notices in the mail and tries to contact the borrower by phone.

Around 90 to 180 days, the "acceleration clause" of the mortgage agreement may go into effect. This means that the homeowner could be bound by the contract to pay the loan immediately and in it's entirety (including late payments and fees)… or face foreclosure.

Even if the mortgage contract has an acceleration clause, most lenders would prefer to work with the homeowner rather than going through the foreclosure process (as a foreclosure costs the lender time and money). So rather than getting the full amount of the loan, most lenders are happy if the homeowner simply gets current on the loan – meaning the borrower needs to pay all back payments and penalties.

> *SECRET: Sometimes homeowners attempt to sell their own house at this point just to save their credit rating from getting hammered with a foreclosure. You may see "FSBO" (for sale by owner) ads in the paper which make mention of "taking over payments" (or similar). You may be able to secure a good deal on these homes if the owner is motivated to sell fast to avoid foreclosure.*
>
> *However, just be aware that a homeowner who tries to sell his home shortly before a bankruptcy will likely cause problems for the buyer. More about that later in this course.*

If the bank believes the borrower is unable to repay the loan, then usually between 90 and 180 days the lender begins the legal foreclosure process. This process officially starts with the next step …

### *2. The bank posts a Notice of Default (NOD).*

Once the bank or other lender decides that the borrower is unable to make payments on the loan, then the lender posts a "Notice of Default" (NOD) with the County Recorder and sends a notice to the borrower. This serves as the official notification to the borrower that the foreclosure process has started.

> *SECRET: A Notice of Default is a public record, which means you can secure these records to find out about homeowners who may be willing to sell their homes (to avoid foreclosure) or who may be forced to sell their homes during the foreclosure.*
>
> *Sometimes investors buy the homes at this point to help the homeowner avoid the foreclosure. Some investors buy the homes and allow the former homeowners to pay rent – so while they no longer own the home, they don't have to move either.*
>
> *As mentioned before, some homeowners may not be receptive to your offers at this point in the foreclosure process. In addition, the homeowners are likely getting calls from your competition ("foreclosure hunters"). And because some homeowners have been told that anyone who wants to buy their house is a con artist, they may view you very suspiciously.*
>
> *Again, none of this means that you shouldn't contact homeowners at this point in the foreclosure process. Just be aware of how some people may react to your offers.*

Once the Notice of Default is posted, a "reinstatement period" begins. In most states, this period lasts approximately three months (often ending just days before the scheduled foreclosure auction). At this time the homeowner has a chance to bring the loan current – or in some cases, pay off the loan – to save the home.

### *3. Lender posts Notice of Sale (NOS) and a sale date is established.*

If three months pass and the loan isn't current (e.g., back payments and penalties haven't been repaid), then the lender can post a Notice of Sale (NOS) which gives the time and location of the foreclosure auction.

The Notice of Sale is posted at the County Recorder's office, a notice is sent to the homeowner, and the sale is usually mentioned in the local papers for a period of three weeks.

Because there's still a chance that the homeowner could make back payments to save the property, not every property that's listed in the paper or in the public records actually goes on the auction block. Sometimes they are postponed. Sometimes they are outright cancelled. To save yourself some time, call the trustee the day before or day of the auction to see if the property is still scheduled to go on auction.

> *SECRET: While you generally can't inspect the inside of the property, this is the time you should be doing a "drive by" to inspect the outside of the property. Later on in this book I'll tell you what to look for when you do this research. I'll also tell you what other research you must do before you even think about placing a bid on a property – and I'll share a horror story from someone who didn't do this research!*
>
> *Bottom line: Most properties are sold "as is," which means that your ability to do research is directly related to how much money you can save buying a foreclosed home (versus a home being sold at full market value).*

### *4. House goes up for auction.*

If the homeowner doesn't save the house (and if the homeowner hasn't made other arrangements with an investor), then the house goes on auction. Usually the auction occurs on the steps of the courthouse in which the property is located. If not, then the auction usually happens in some other public space. Check the Notice of Sale for the time, date and location of the sale.

While auctioneers prefer to sell homes without a reserve price or minimum bid (because these auctions generate more interest), you'll likely find that most of the properties do indeed have a minimum bid. This minimum bid is set by the lender and is generally equal to the amount of money they need to balance their books. In other words, the minimum bid is equal to the outstanding loan amount plus any legal expenses or other fees.

Now one of two events occurs …

### *5. Winner pays for property and closes deal …OR if there's no sale, then the bank owns the house (REO).*

If no one bids the minimum amount, the bank now owns the property (which is listed as REO in their records). At this point you can make an offer on the house by dealing directly with the bank's representatives. In this case, you may even be able to submit contingencies along with your bid.

> *SECRET: As mentioned before, the bank may also clear the title and repair the home (if needed), which makes the transaction safe for you. We'll talk about buying REO property later in this book.*

The other possible outcome is that one or more buyers bids on the property… and the buyer with the highest bid wins the auction. The buyer usually needs to put down a deposit immediately (usually at least $5000 or 5%, whichever is greater), and then pay the remainder anywhere between 24 hours and 60 days later.

The winner is usually given a deed that he takes down to the County Recorder's office so that he can get his name added to the title. You'll also want to purchase homeowner's insurance to protect your property. If someone is living on the property, you may begin eviction proceedings.

In some states a redemption period begins after the auction, whereby the former homeowner can still buy back and save his or her home. If your state has redemption period, don't put any money or do any repairs on the home until after the redemption period has expired.

### Quick Recap

There are three points in the foreclosure process where you can buy the home:

1. In pre-foreclosure – here you may find homeowners trying to sell their property to avoid foreclosure, or you may consider approaching homeowners to buy their property.

2. At the foreclosure auction – here you'll bid against your competitors in an attempt to secure a good home at a great price.

3. After an unsuccessful auction – if no one bids, then the bank owns the property. You can work directly with the bank's attorneys and other representatives to purchase this bank-owned property.

As you've already discovered, the foreclosure process doesn't happen overnight. And that means you have time to do the necessary research, which you'll learn about in the next section …

# Chapter 2

## Everything You Need to Know About Finding Foreclosure Properties and Other Bargains

Naturally, the first step in you getting a good deal on a foreclosed home is finding a listing of these foreclosure, pre-foreclosure and REO properties. If you are working with a real estate agent experienced in foreclosure sales, he or she will help you find and research the right properties and you will save a ton of time and aggravation.

> *SECRET: Don't assume you can work with just any real estate agent when buying foreclosure properties. You want to work with an agent who has experience with these types of sales and who has demonstrated the ability to get short sales and/or REO sales closed. Many agents DO NOT have this experience. In fact, many agents stay clear of these types of sales because there is so much involved – you must ask any prospective agents questions about his or her qualifications.*

Here are the various sources to find foreclosure properties:

### *Search the Public Records*

As mentioned previously, the Notice of Default and Notice of Sale are posted as public records and filed in the County Recorder's office. That means you can search through these records (usually for free, although requesting copies or other small tasks will incur a fee).

In some cases, you may need to visit the Recorder's office personally to search through the records. In other cases, the Recorder may put the records online, so it's a good idea to check the Recorder's site first.

> *SECRET: If you don't know the Recorder's website, search for the name of your county alongside Recorder or Recorder's Office. For example, "MyCounty Recorder's Office."*

### *Use an Online Service*

Some companies scour these records for you and list all the Notice of Sales and Notice of Default postings in your county (as well as around the U.S.) on their website. You can pay a monthly subscription fee to access these listings if you'd rather have someone else research the public records.

Many of these services offer a one-time free trial or perhaps a one-week free trial. Take advantage of these offers so you can determine which service produces the best results for your area.

> *SECRET: While using this type of listing service saves you a lot of time, keep in mind that you're getting these lists along with dozens or hundreds of people in your area. In other words – your competitors are receiving these same lists at the same time as you.*
>
> *If you'd rather get this sort of information before your competitors, then you'll want to search the county records yourself as well as using some of the other methods listed in this section.*
>
> *However, keep this in mind: You don't necessarily have to scour the records yourself. This is the type of job you can hire someone else to do part time for you.*

### *Check the Newspaper*

As mentioned previously, you'll want to keep your eye on your newspaper listings for ads that say things like, "take over payments." These ads are generally posted by motivated buyers who are having financial problems and are on the brink of a foreclosure. And that means you *could* get a good deal.

You'll also want to check the "public notices" section of your local newspaper, as that's where the "Notice of Sales" of "Sheriff's Sales" notices will be posted.

Typically, a Notice of Sale will be posted for approximately three weeks before the sale date. You'll get all the information you need from this ad, such as time, date and location of the sale. You'll generally also get auction rules and perhaps other information that's helpful to your purchase decision (such as opening bid).

### *Pay Attention*

Some investors make a point of driving around neighborhoods looking for "for sale" signs (especially "for sale by owner" or FSBO signs), or signs that mention foreclosure or "bank owned" property sales.

If you don't find this productive, at a minimum you should look for these signs when you regularly drive through your own neighborhood. You may even see a foreclosure notice posted, as some counties post them on the door or the window.

> *SECRET: If you see a "for sale by owner" sign, then that's generally an indication that it's ok for you to contact the person (as the owner is inviting you to do so).*
>
> *However, if you see a foreclosure notice posted, or if you see a foreclosure in the paper and drive by the property, don't start snooping around the property or knocking on the door. This is not only seen as crass (as this is a difficult time for the family living in the house), but you may even be guilty of trespassing.*

### *Contact Real Estate Agents*

There are some real estate agents who specialize in listing properties that are about to go into foreclosure or who list REO properties. Your own agent should also know who these agents are.

> *SECRET: Sometimes it's not always clear which agents specialize in these sorts of properties, as they don't advertise their specialty. However, you'll likely naturally discover which agents tend to always list foreclosed properties … and once you discover that, you can search for that agent's listings. Be choosy about whom you work with, because not all agents have worked on foreclosure deals, and you will want one who has experience in closing these kinds of deals.*

### *Network with Those Who Can Help You*

Who do you know who might have information about foreclosure properties? These people might include those who work in the County Recorder's office, those who work for lenders, real estate agents, attorneys and so on.

You should make a point of networking with these people, perhaps by attending business functions where they'll be present, by attending Chamber of Commerce meetings, and so on. Let them know that you're in the market for foreclosure houses, and ask them to contact you when they hear about any foreclosure properties.

> *SECRET: Naturally, these sorts of people can't disclose information that's not available to the public. For example, a bank employee can't "gossip" about their customers who are falling behind on payments.*
>
> *However, these contacts can tell you about information just as it becomes public. For example, a bank employee can tell you about a foreclosure after that Notice of Default has been posted. And that means you can get a jump on the competition and save yourself time and money when you have a network that's willing to share this information with you.*

Also, don't forget to tell your own friends and family to contact you when they hear about distressed, pre-foreclosure or foreclosed property.

### ***Check Government Websites***

Some government agencies are in the business of helping certain groups of people buy homes, such as low-income buyers, military veterans and more. And just like other buyers, these homeowners go into foreclosure, which means the government needs to auction off the property or sell it through other means.

The most common government auctions and other sales you'll see are "HUD" foreclosures (HUD = The Department of Housing and Urban Development). You may also see auctions and sales through the IRS, Fannie May, U.S. Customs and more.

Here's where you can find government foreclosure homes for sale:

http://www.hud.gov/homes/homesforsale.cfm

*SECRET: Many government agencies require that you retain the services of a real estate agent in order to make an offer for purchase. As usual, check the website and your local regulations to see if you are required to have an agent. Even if you aren't required, it is HIGHLY RECOMMENDED you have the representation of an agent when dealing with a government agency.*

*Also note: Most HUD homes are appraised and sold at or near their fair market value. As such, most HUD homes aren't good for those who are looking to quickly flip a house for a profit.*

*However, HUD homes that require repairs allow for these repairs in the sale price. That means that if you can do the work yourself, you can save money. Again, this type of deal should be negotiated by an experienced agent. You might also choose a HUD home for a personal residence or as a long-term investment if you expect your investment to appreciate due to a good neighborhood, good school, etc.*

### ***Browse Bank and Asset-Management Websites***

Some mortgage companies and banks – especially the larger national companies – regularly post their REO and foreclosure properties on their websites. For example, Chase Bank, Wells Fargo Bank, Countrywide, Citi Mortgage and Bank of America are just a few of the bigger lenders who post their REO properties. Check the local banks in your area to see if they post their properties too.

You'll also want to check out the websites of asset management companies, since some lenders have asset management companies take care of their foreclosure and REO properties (which they in turn list on their sites). These companies include Orix Asset Management Group, Keystone Asset Management, Prudential First Properties and dozens of others.

### ***Seek Out Auction House Listings***

As you get more familiar with the foreclosure and other property auctions in your area, you'll see that one or two auction houses tend to handle all these sales. These auction houses also tend to list their inventory on their websites, so you may find something that you overlooked elsewhere.

### *Post Your Own Ads*

Finally, you may be able to find distressed properties by placing ads in the classifieds section of your newspaper, by posting flyers in your neighborhood, and by posting ads online (e.g., on CraigsList.org, USFreeAds.com and on your own website, if you have one). You may also consider magnetic car signs.

You've probably seen these sorts of ads and signs. Usually they say something like "Get Cash for Your Home" or "We Buy Houses" or "We Buy Ugly Homes."

The key to an effective ad is to create one that gets attention and gives the prospect a good reason to act now. (By act now, I mean to call you now, to visit your website and sign up for your newsletter now, or whatever other action you might want them to take.)

For example: *"Get Cash Fast for Your Home – Usually in Less Than 24 Hours. Call now to avoid the stress of foreclosure."*

> *SECRET: To get an idea of what types of ads work, keep your eye out for ads that are run repeatedly in certain newspapers. You don't want to copy these ads, but you can use them as inspiration to create your own ad.*
>
> *Once you've created your own ad, then you'll need to test it and tweak it until you come out with a high-converting version of your ad. That means you need to "key" your ad so that you know which ad (and in which publication) produces the best results.*
>
> *If you want people to call you, then you can "key" your ad by offering different phone numbers or extensions in your ad. If you're sending people to a website, then use different domain names for your different ads.*

The advantage of seeking out distressed properties in this manner is that you'll deal with people who are seeking help. Remember, some homeowners may be in denial and may rebuff any of your offers if you approach them. You virtually eliminate this problem when you instead ask homeowners to contact you.

Which brings me to my next point that I want to emphasize in the summary …

## Quick Recap

I've talked a lot about foreclosure auctions, and in the coming section I'll be focusing almost exclusively on what you need to know about buying property at a foreclosure auction. However, keep in mind that you can get foreclosure bargains at times other than the actual auction.

I've mentioned these previously, but it's worth stressing that there are several approaches you can take aside from auctions, including:

1. You can offer to buy a distressed property or pre-foreclosure house directly from the homeowner.

2. You can make an offer directly to the bank for their REO properties.

Now that you've found plenty of foreclosure properties, it's time for you to research them …

# Chapter 3

## Everything You Need to Know About Researching Foreclosure Properties

Whether you're buying pre-foreclosure, foreclosure or REO properties, doing your research is essential to make sure you're getting a good deal. However, it's especially essential that you do your research if you're focusing on foreclosure or pre-foreclosure properties.

Why?

Because these properties are generally sold as-is. That means that not only is the property itself sold as-is, but the title is sold the same way. So you may encounter plenty of unpleasant surprises, such as a home that requires a lot of repairs or a title with liens and outstanding debts that you must satisfy before you can get a clean title. (Later on in this book I'll share with you a few horror stories about people who didn't research these liens before bidding!)

> **Lien:** A legally recorded claim against the property, usually due to an outstanding debt. Once the debt is cleared, then the lien is cleared off the title.

**What about disclosures?**

If you've ever bought or sold any regular real estate properties, then you're probably quite familiar with disclosure forms. By law, sellers are usually required to disclose any known defects or other possible negatives. This may range from everything from problems with mold to wiring problems to flooding problems. It may also include things like whether pets ever lived in the home.

However, these sorts of disclosures usually don't apply to foreclosure auctions. And that's because the bank doesn't have any knowledge of possible defects or other problems, so they can't disclose what they don't know. As such, you truly are buying the property "as is."

Since it's difficult to inspect the inside of a property (more about this later), the condition of the interior of the home may be completely unknown to you. That's why it's so important for you to follow all the research steps listed here, as it will greatly reduce your risk.

Here's how to do your research …

### *Inspect the Property*

When a person's home goes into foreclosure, there's a good chance that he's behind on other bills as well. As such, you might find that some foreclosure homes are in fair to poor shape because the homeowner hasn't been able to afford repairs and maintenance. You may find big and small expenses, including but not limited to:

- Burnt-out light bulbs.
- Missing batteries in smoke detectors.
- Peeling paint.
- Appliances that don't work.
- Rot or mold.
- Pest problems such as bats, termites and mice.
- Roof or structural problems.
- Worn carpet that needs to be replaced.
- Water damage (due to flooded basements, leaky ceilings, etc).
- Frozen or burst water pipes, which happens if the electricity has been shut off.

And so on.

You may also occasionally encounter what's sometimes called "foreclosure rage," where the homeowner purposely or even accidentally destroys property as he's leaving. You might find things like:

- Homes that have been stripped of the wiring and plumbing (as copper and other metals can be sold as scrap metal).
- Holes in the walls due to angry fists or feet.
- Electrical outlets in poor shape due to stripped wiring or plugs that were pulled out quickly.
- Cigarette burns in the carpet.
- And even outright acts of vandalism such as fire, broken windows, etc.

Your first step is to do a "drive-by" to get feel for the condition of the outside of house. If the home isn't occupied, then find out if you can see the inside of the home before the sale.

*SECRET: If you are able to go inside the home, and you like what you see, then you may consider hiring a professional home inspector to create a report for you about the condition of the home. This is inexpensive in the grand scheme of things, usually costing a couple hundred dollars – but it could save you thousands of dollars in hidden repairs.*

In most cases, you'll be unable to go inside the house or even step onto the property of an occupied house, as that's considered trespassing. The exception would be if you have the homeowner's permission to inspect the property.

However, you'll want to tread carefully. Remember, this person has been hounded by creditors and is under great stress, so he probably won't welcome you knocking on his door and asking to see the property. Your competitors have contacted him already. And he'll probably feel like you're a vulture trying to "steal" his property from him – and so you can expect to be met with some anger if you knock on doors.

*SECRET: You may consider writing a letter to the homeowner in order to gain access. This works particularly well if you're offering to buy the home and helping him to avoid closure.*

*If you're buying a REO property that hasn't been repaired, then you may be able to submit a contingency with your offer, by which your offer is good contingent upon a satisfactory inspection of the house. In many cases, you'll be allowed to inspect bank-owned property before bidding, since the property is often vacant. Your real estate professional will be able to negotiate this for you.*

If you are able to gain access to the property to inspect it, then you may want to get a professional home inspector to view the property with you.

*SECRET: If you're an investor, then you certainly want to get a home inspector for the first property you're considering buying. You learn a lot just by walking alongside a professional as he does his job. After that, you may be confident enough to do the initial inspection yourself. Your real estate agent will be able to refer you to a qualified home inspector.*

These are the sorts of things you should look for (this list is not exhaustive – you may want to consult with a professional home inspector):

- Does the house have any special security features such as motion detector lights, alarms or other home security systems? Is there a deadbolt lock on the door? Are there locks on the windows? Are there solid locks on sliding glass doors?

- Look for evidence of pest problems, such as wood destroyed by termites, bat droppings, mouse droppings, "nests" or evidence of pests chewing on the walls or carpet, etc. You may also see leftover pest traps and poisons left by the previous homeowner, which could indicate an ongoing pest problem.

- If the home has a fireplace, inspect both the fireplace and chimney for any evidence of damage. Does it look like it works?

- Are the appliances clean and in working order?

- Is the heat on? (This is important in the winter to avoid having the pipes burst.)

- Do you see any general damage or missing "pieces" such as missing window screens, missing storm windows, cracks or holes in the windows, floors, walls and ceiling, missing door handles, missing locks on doors, etc?

- Do you see any evidence of water damage? Look at the ceilings and walls for telltale signs such as brown and yellow stains which may indicate a leaky roof. In the basement, look for evidence of flooding.

- Do you see any evidence of mold? At a minimum, you'll need to look behind vent covers, under the carpet, in the basement and in the attic.

- Do you see any smoke or fire damage that might indicate a recent fire?

- Has this house been inhabited by smokers or pets?

- Is the electrical wiring and lighting in good shape? Do you see any worn or bare wires? Do you hear any unusual noises when you switch on a light such as a crackling sound? Is the meter in good shape? How about the circuit breaker box? Also take note of the amp capacity.

- Is the plumbing in good shape? Is there good water pressure and good drainage? Do the pipes look good? Do you see any leaks or evidence of leaks?

- Is the home well insulated? This includes not only the actual insulation, but also well-constructed doors and windows.

- Is there adequate ventilation in the home (and in the attic)? Is there a fan in the attic? Is the fan in good shape (e.g., no broken blades)?

- How does the attic look? Do the rafters and beams look like they're in good shape?

- Are the heating and cooling systems in good shape? If the home has an air conditioner – especially a window unit – run it to check the noise level. If the cooling system is a "swamp cooler," check for rust or mold.

- What is your general impression of the kitchen? Be sure to look at the cupboards, counter tops, and flooring. Also carefully inspect the kitchen around where the garbage can is kept (or was kept), near food preparation areas and anywhere there might be spills or crumbs, as sometimes these are the places where you'll see evidence of an ant problem.

- Look inside the closets. Is there a lot of storage space? Are the closets in good shape? Are they well lit (and are the bulbs missing)?

- What is your general impression of the bathrooms? Here you should see that the faucets, toilet, shower and tub all work well. Look inside the medicine cabinet, check the closets and look at the condition of the mirrors. Also check for mold (as the bathroom tends to be a damp area).

- What is the general condition of the house foundation and structure? Do you see any cracks in the walls, floors or ceilings? Do doors and windows open and close easily? If you put a ball on the floor, does it start rolling on its own?

- What is the general condition of the interior of the home? How is the flooring, tiles and carpeting? Do the walls need to be repainted? Is there wallpaper or trim that needs to be replaced? Are there fixtures that need to be replaced?

- Look in the basement at things like the hot water heater and furnace. Is there any rust on the heater? Does the furnace look to be clean and in good shape (check the filter, which can give you a clue as to whether furnace maintenance has been maintained).

- What is the general condition of the exterior of the house? Here you should look at the foundation, walls, shingles/roof, and structure. (More about this in the next section.)

You'll also want to look at the garage and any other sheds or outbuildings. Check out the general condition of these buildings, and then take note of the electrical wiring, whether the buildings are heated, if the garage has an electric opener that works, the shelf space in the garage, whether the garage has adequate ventilation and so on.

Finally, be sure to also take note of what types of lighting are available outdoors. Is there a porch light? How about a yard light? Are there any motion detector lights?

## *Inspecting the Outside of the Property*

In most cases where the house isn't vacant, you probably won't be able to gain access to the inside of the property. In that case, you'll need to use the condition of the outside of the property as a clue to what the inside might look like.

Here are a few things you need to look for:

- *Check the landscape for potential problems*. Does it look like the house might be at risk for flooding? Does the landscape slope towards the house and/or does the house sit in a low-lying area? Do you see anything like trees that look like they might come down in the next wind?

- *Note the overall condition of the yard*. If the yard is in total disarray and full of trash, then you can bet the inside of the house looks about the same.

  See if you can find other clues that can help you determine how well the homeowners took care of the property. Is the lawn mowed? Are trees trimmed? Are there well tended to gardens, flowers or decorations? If there's a fence, is it painted and in good shape?

- *Check the roof*. Here a pair of binoculars comes in handy. Check the roof to determine the condition of the shingles. Do they look to be new or otherwise in good shape? Or are they curled with some of them missing?

- *Check the condition of the paint*. Will this house need a new coat of paint before you sell it? And is the paint merely dull, or is it cracked and peeling (i.e., it should have been painted long ago)?

- *Look at the structure*. Do you see any obvious structural flaws, such as a wall that appears to not be in alignment or obvious cracks (especially near the ground)?

- *Look for cracked or broken windows*. If you see cracked or broken windows, that might be a sign of "foreclosure rage," especially if more than one is cracked or broken. In that case, don't be surprised to see more damage on the inside of the home.

- *Look at the surrounding property*. If there are any garages, sheds or other outbuildings, how do they look? Also look at the cars in the driveway – if they don't look like they're taken care of very well, there's a chance they haven't taken care of their home either.

- *Is there anything else that makes the property more attractive?* For example, is there a hot tub or pool outside? Is it a fenced yard that can accommodate dogs? Is it a larger yard with buildings and fencing that can accommodate horses? (If so, be sure to also check that the regulations allow horses or farm animals on this property.)

- *Check if the utilities are on by driving by a second time at night*. Finally, you'll want to drive by once more at night, which can help you determine if the electricity is still on. It may also give you a quick glimpse of the inside of the house. While looking through a window quickly as you drive by won't give you too much information, you may be able to spot a clue such as a messy house, a hole in the wall, etc.

### *Gather Records*

The next thing you'll want to do is run a full title check on the property. And that's because a title check will uncover liens for outstanding debts on the property. You may uncover things like:

- Back taxes owed on the property.
- Income taxes owed by the homeowner.
- Past-due utility bills.
- Unpaid construction debts (AKA mechanic's liens).

And other unpaid loans and expenses.

> *SECRET: Some liens are unrecorded, such as homeowner association fees. Be sure to buy title insurance if you win the property to protect yourself from these "hidden" debts.*

The reason this is important for you to know is because these liens and debts become your responsibility if you buy the property at a foreclosure auction. You cannot get a clean title on the property until you take care of these debts. Obviously, these debts will cut into your profits, so you'll need to bid accordingly (More about that in a moment).

You'll also want to pull up all other public records on the property, such as land records, zoning records and even waste records. These records will help you spot any potential problems with zoning issues, tax issues and similar.

> *SECRET: You can check the county records to obtain these documents, or you can have a title company or an attorney search for these documents for you.*

I cannot impress enough how important it is for you to do a title search to uncover these liens. A house that you thought was a good deal can easily turn into a nightmare if you skip this step! (Later on I'll share with you a story about how a bargain turned into a money pit due to the buyer's failure do a simple title search!)

### *Research Comparable Sales*

The next thing you need to do is find out what other similar properties in the same neighborhood have sold for recently – this is called researching comparable sales. Doing this will help you estimate the market value of the property you're interested in.

Real estate agents typically run these sorts of reports, so your agent can quickly create a report for you. Indeed, if you get comparable sales information from your agent, it will **almost certainly** be more accurate and/or detailed than information you can get on the Internet yourself. However, technology has made it possible for anyone to get this information online. Here are some of the most popular websites the general public can use to gather this kind of data:

http://www.cyberhomes.com

http://realestate.yahoo.com/Homevalues

http://www.zillow.com

http://www.domania.com/

http://www.realestate.com/homepricecheck/

http://www.eppraisal.com

http://www.propertyshark.com

The reason I gave you seven different websites is because you're going to get different figures from those sites. If you use just one site, you'll probably get an inaccurate picture of the current market. That's why you should use several of the sites, get an average figure for similar properties, and base your estimate on that average.

As mentioned previously, you're looking for similar homes in the same neighborhood. That means you should look at things like square footages, number of bedrooms, number of bathrooms, size of the lot, which schools are closest, zoning restrictions, quality of construction and the like.

> *SECRET: Usually you want a list of at least 10 or 15 similar properties that have recently sold in the same neighborhood. The more recently these properties were sold, the better (as market conditions can and do change).*
>
> *If you're looking at properties that were sold more than three or four months ago, make sure that you also have some knowledge of market conditions. That way you'll know if the properties were sold for a higher or lower amount than the current market.*

### *Check Out the Neighborhood*

Your next step is to check out the neighborhood. If you are working with the right real estate agent, he or she has already made sure the general neighborhood is a good one to buy in.

You can start your research simply by driving around the neighborhood when you inspect the property. As you drive around, take note of the following (if you're an investor, view it as if you were looking at the neighborhood as a potential residence):

- What is your overall impression of the neighborhood? Does it feel "safe" to you? Does it look like someplace you'd like to live? Is there anything distracting like graffiti, unsavory characters congregating, etc? Do you see children playing outside? (That's a good sign.)

- What is the general condition of the area? For example, are the roads and sidewalks in good shape? Are there any buildings in the area that are boarded up or otherwise in poor shape?

- How do the other houses in the neighborhood look? Are they in good shape? Or do they look neglected with peeling paint, lawns that aren't mowed, dilapidated buildings and fences, trash in the yards, etc?

- Is there anything distracting nearby, such as railroad tracks and airports that will cause a lot of noise? Is the home on a busy road or on a quieter side street?

  Is it near anything else that may be noisy for the homeowner, such as being located near a university (especially if the nearby homes are rentals) or located near bars and other nightlife? (Note: Some people will consider living near a university and nightlife a plus.)

- What are the advantages of living in this neighborhood? Is the house within walking distance of public transportation, such as a bus line, subway or trains? Is it near a school? Is it near a shopping center? Is it near a hospital? Are there nice parks in the neighborhood?

  Speaking of which…

- What is your general impression of the schools, hospitals, parks, and public transportation stations in the area? Do they look clean, safe and modern?

After you've physically inspected the neighborhood, then you'll want to do some other research to find out the facts and figures related to the neighborhood. These include (but aren't necessarily limited to):

- Find out the crime rate in the neighborhood. Is it lower or higher than surrounding areas? Does it seem to be on the incline or the decline (or holding steady)? Also look at what type of crime these statistics represent (e.g., violent crime).

- Research the schools in the area. Are they generally considered "good" schools? You can find out even more in-depth information such as average class size, spending per student, facilities available (such as how much equipment is available in the fitness center, how many computers available to students, how many books in the library, etc).

- Are there sex offenders or pedophiles living in the area? You can find out by searching the sex offender registries on sites like: http://www.familywatchdog.us/.

- Consider general information about the area. Is it a growing area? Are there jobs available? What is the average monthly living expense in the area? What is the average property tax bill? Does it look like a property that will appreciate?

### *Find Out the Minimum Bid and Other Information*

The information you've collected so far will give you an idea of how much the property is worth and how much is owed on the property. Before you start determining your maximum bid, you'll also need to find out the minimum (starting) bid at the auction.

Usually, the auction ad lists this information right in the newspaper or Notice of Sale. If you found out about this auction through another source, then you'll want to either call the trustee or get a copy of the Notice of Sale to obtain this information.

In addition to giving you the minimum bid, the Notice of Sale will also inform you about other possible fees you'll have to pay at the auction. Some auction companies require that the winning bidder pays a "buyer's premium," which is usually about 5% of the purchase.

So for example, let's suppose you purchased a home for $100,000 at this auction. If the auction house charges a 5% premium, then you'll need to pay the $5000 premium for a total of $105,000.

### Quick Recap

You've just discovered how to thoroughly research a property, from doing a physical inspection to researching the neighborhood, crime rates and the schools in the area. You've also learned how to uncover "hidden expenses" on the property such as liens and other outstanding debts that become the buyer's responsibility.

Now that you've collected all this information, you should be fairly confident about the market value of the home and what price would be considered a good deal. In the Bidding chapter in this manual, I'll show you exactly how to determine your bid price … even if you're unsure about the interior condition of the property!

But first, let's take a look at what you can expect when you go to a typical foreclosure auction.

## What to Expect at the Foreclosure Auction

You have one or more properties you're interested in bidding on at the foreclosure auction. So what happens next?

First, you need to find out where the auction is being held. In most cases, you'll find the auction on the steps of the county courthouse (rain or shine, so dress appropriately). If not, you'll find it in another public space in the county in which the property is located. Check the foreclosure auction ad to determine the exact date, time and location.

Foreclosure auctions on specific properties can get cancelled. Sometimes the homeowner comes up with the money needed to save his home, so the auction gets called off. As such, you should call trustee's office the day of the auction to make sure the property you're interested in is still scheduled to go to auction.

Be sure to read the auction ad carefully so you know what to expect. Some auction houses ask that you pre-qualify with them before the auction. This means that you can either:

- *Show proof that you have the funds to cover any purchase*. It's a good idea for you to get pre-qualified for a loan with your preferred lender before you go to an auction. That way you know how much money you have available to make a bid on the property. Then when you go to the auction, you can pre-qualify for the auction by showing the officials your pre-approval letter.

- *Go through the pre-approval process with the auction lender (where available).* Some auction houses have their own preferred lenders. You may get pre-qualified or get pre-approval through these companies. If that's the case, then you'll need to go through the usual paperwork, such as showing a few years of your tax statements, showing proof of income or job, etc. Talk to the lender well ahead of time to see what documents and forms they need you to bring to their office.

Even if the auction company doesn't specifically say you need to get pre-qualified with them, it's still a good idea to do so, as it makes things move much more quickly on auction day.

### *Who Else Will Be At The Auction?*

Don't be intimidated if you see a lot of people at the auction. Sometimes only a few people are actually there to seriously bid. And not all of these bidders will necessarily bid on the property you're interested in, either.

The people at the auction will include:

- *The foreclosure trustee or sheriff*. These people are here to make sure everything is run legally and fairly.

- *The lender's attorney*. The lender's attorney is present to buy back and take possession of the property if no one places a minimum bid. This is when a foreclosure property becomes a bank-owned property (which appears as real estate owned – REO – in the lender's books).

  The bank or other lender sets a minimum bid which is equal to the amount of the outstanding loan (i.e., what is owed on the property) plus any legal fees or other fees they've accrued in the foreclosure. If the borrower falls behind in payments early on in the life of the loan, then the amount owed could be quite high – in which case no one at the auction will bid because the minimum bid is close to the market value of the property.

  As such, not every property will sell at a foreclosure auction. However, you can make an offer with the lender later on for these bank-owned properties. The REO properties will also likely be a safer transaction, as the bank often makes repairs, prepares disclosure forms and gives you a clean title. (That doesn't happen in every case, so don't make any assumptions about the condition of the REO property or the title.)

- *The auctioneer and his staff*. When you first get to the auction, you'll need to locate these people so that you can register for the auction. They'll generally want to see some form of ID, an "earnest money" deposit in the form of a cashier's check and perhaps proof that you can cover the balance. Once you register, you'll be given your paddle with a number on it so that you can bid at the auction.

- *Other bidders (this is your competition).* Generally there are two types of bidders: real estate investors and those who are looking to buy the home as a personal residence. Often those who are looking to buy the home as a residence will bid a little more then the investors, as these bidders are not looking to make a profit on the investment.

- *People who are there to observe the auction*. There will be some people at the auction who are registered but do not place any bids. There will also be some people there who do not even register (which means they couldn't place a bid even if they wanted to).

  If you've never been to a foreclosure auction before, you may consider observing one or two auctions without registering to bid. That's because an auction sale is a very fast-paced event – some auctions with lots of inventory can easily sell off a couple dozen properties within an hour. If there's just a property or two to sell, it can all be over in a couple minutes.

  As such, it's a good idea to observe a sale first so that you're confident about the process before you actually start bidding. Also, take note of the bid increments – sometimes they'll be as low as \$100, \$500 or \$1000 for lower-priced properties. However, the bidding may go up several thousand dollars at a time for higher-priced properties.

  Finally, when you do go to an auction where you intend to bid, be sure to arrive early so you can get registered and go over any available terms or disclosure forms well before the auction starts.

- *The original homeowner may even be in attendance*. That's because it's perfectly legal for the homeowner to bid on his own property. While this does happen from time to time, it's fairly rare. And that's because if the homeowner was unable to make payments on the house, it's unlikely he'll be able to pull together the cash to pay for his bid at a foreclosure auction.

### ***What Information Will Be Presented At the Auction?***

Generally, the order the properties will be auctioned off is listed in the auction ad or in the forms provided at the auction itself. Take note of this – as mentioned before, an auction moves fast, so you'll want to know when your property will be up for auction.

The auction ad will also generally state the auction rules. You'll also likely get these rules when you register to bid. Be sure to read these thoroughly, because this is where you'll find out if there are any extra fees (such as a buyer's premium) which get tacked onto your winning bid.

Right before the bidding begins on a property, the person conducting the auction will read any legal notices associated with the property as well as the legal description of that property. If there are any disclosures, you'll have that information available to you as well before the bidding starts.

Let's back up a moment and define disclosures …

> **Disclosures** are material facts that are known by the seller that could affect the buyer's purchase decision.
>
> For example, if the house has smoke damage, then that's something the buyer would want to know before bidding. And if the seller knows the house has smoke damage, then he's *bound by law* to disclose this fact to any potential buyer.

If you're buying real estate through the normal channels – such as through a real estate agent who is working with the seller – then you'll get full disclosure on the property. However, you generally won't get these types of disclosures when you're buying foreclosure property. That's because the lender simply doesn't know the condition of the property, especially if the house is still occupied.

If the house is vacant, then you may get a chance to inspect the property at an open house prior to the auction. In that case, you may even receive some disclosure forms if the lender discovered any problems. But don't assume anything – and note that the property is still sold "as is." In other words, "buyer beware."

If you're buying bank-owned property (REO), then you should get more disclosure. This is especially true if the bank has worked to repair and clean the property.

If you are lucky enough to get full disclosure, what types of things might you expect to be revealed on this form? It depends on your state, as different states require different disclosures.

Below you'll find a general sampling of the type of information you might expect to receive. The reason I've listed these common items out for you is because if you intend to sell the house to someone else, then you'll need to in turn make these same disclosures.

As such, keep in mind that these sorts of disclosures can affect the buyer's decision, or at least affect the price of the property. For example, if there's a problem with the roof, then you'll need to disclose it to your buyer … and perhaps offer an allowance that covers the estimated cost of fixing the roof. (Alternatively, you'll need to fix the roof, in which case you need to set aside money to do so.)

Here is that sample list of disclosures:

- What is the age of the property?

- How many owners have lived on the property, and how long did they each live there?

- If the property was built before 1978, was it painted with a lead-based paint? Are any interior or exterior walls painted with lead-based paint? Is the plumbing structure made of lead piping?

- If it's an older house, does the insulation or other parts of the home contain asbestos? (This is a cancer-causing agent.)
- Has anyone ever died in the house? In some states, it's mandatory to disclose any deaths in the house. In other states, it's mandatory to only disclose those deaths in the last three years. Some buyers will be disturbed to learn if there was a violent death in the house. Other buyers will be disturbed by any deaths (perhaps due to a belief that the property is haunted).
- Was the property built on or near a burial site?
- Is the property prone to flooding? Does it sit in a low-lying area or designated flood plain?
- Was the property built on or near a landfill, toxic waste dump or similar?
- Has the water quality been tested? Has the soil been tested? If there are any rivers, lakes or other bodies of water nearby, have they been tested for contaminants?
- Are there any ongoing fees associated with the property, such as homeowner association fees?
- Have people smoked in the house?
- Have pets ever lived in the house? (Since some people are highly allergic to pets, they may not want to buy a home occupied by pets, or they may want to clean it deeply and thoroughly after purchasing.)
- Has there ever been a fire in the house? And if so, is there any remaining smoke, fire or water damage to the house?
- Does the house have any other water damage? And if so, what was the cause of the damage?
- Has the basement ever flooded?
- Has the roof ever leaked?

- Does the house have any structural problems? Have any structural problems been fixed on the house in the past?

- Does the roof have any known leaks or other damage? Have any previous leaks or damage been fixed in the past?

- What is the condition of the siding and exterior of the home? When was the siding last replaced?

- How well is the house insulated?

- Does the house have any known electrical problems? What electrical problems have been fixed in the past?

- Does the house have any known plumbing problems? What plumbing problems have been fixed in the past?

- Are there any known problems with mold? Were there any mold problems in the past?

- What is the condition of the interior of the home? Are there any holes, chips or other damage?

- What is the source of water?

- What is the condition of the septic system? When was it installed? If applicable, when was it last pumped or otherwise maintained? Have there ever been any problems with it, and if so, when were they fixed?

- How is the home heated? When was the heating system installed? Have there ever been any problems? When was it fixed? How often was it maintained?

- How is the home cooled? When was the cooling system installed? Have there ever been any problems with the cooling system? When was it fixed? How often was it maintained?

- What is the condition of the hot water heater and water softener? How old are they? Have there ever been any problems?

- How old are the appliances and fixtures that stay with the house? Are there any known problems? Have they ever been fixed?

- Are there any known pest problems such as bats, mice, rats, termites, ants, etc? If so, how was the problem taken care of? Did it reoccur? When were these pests last seen?

- Have any hazardous materials ever been stored on the property? This includes things like oil, gas and other toxic chemicals. Have hazardous materials ever spilled or leaked on the property?

- Does the home come with any warranties that are transferred to the new owner? (For example, a warranty for a hot water heater, a new roof, etc.)

- Is there a security system installed? Are there detectors installed and in good working order (such as a smoke detector and carbon monoxide detector)?

- What is the condition of the landscape?

- What is the condition of the outbuildings (including the garage)? Have there ever been any problems with the structures, heating and cooling systems, exterior, interior or electrical and wiring in these structures? If so, what were the problems and when were they fixed?

- What is the condition of the driveway?

- What is the condition of the patio or deck?

- Is the area prone to earthquakes, floods, fires, chemical spill hazards, noise pollution, ground pollution or air pollution?

- Are there any liens on the property?

- Does anyone else have a claim on the property, in part or in whole? Are there any easements on the property (such as a shared driveway)? Are there any parts of the property that are shared with another owner, such as a fence or a line of trees? Has anyone ever mounted a legal challenge for property ownership?

- Are there any zoning or building restrictions?

*SECRET: Sometimes you'll discover something about the house that's not on the disclosure list. By law, you aren't required to disclose it to a potential buyer. Should you disclose it?*

*This is a judgment call. But here's what I do – if it's something I would want to know about a property before buying it, then I always disclose it to my potential buyers. I'm not trying to cheat anyone, so I'm always 100% honest and up front in my dealings with others.*

**Quick Recap**

In this section you discovered what you need to know about the actual auction process, such as:

- Who else will be at the auction, and what their roles are at the auction.
- How to pre-qualify for the auction.
- What you can expect at the auction.
- A reminder that you're likely buying a property "as is" and without disclosures… but you also found out what sort of things you'll need to disclose to a buyer if you resell the property.

Now let's turn our attention to the fun part – namely, the actual bidding process.

# Chapter 4

## Everything You Need to Know About Bidding At a Foreclosure Auction

In this section, you'll find out how to use the information you gathered before to evaluate a property so that you can come up with a maximum bid. You'll also learn what you need to bring to the auction so that you're allowed to make a bid.

### *Getting Registered to Bid*

As you've already discovered, you can't just show up at the auction and immediately start bidding. You need to register first. And in most cases, that means you also need to be "pre-qualified" and able to prove that you can cover your bids.

Also as mentioned previously, the foreclosure laws and the auction rules are different in across counties and states. It's your responsibility to research, read and understand ALL the rules in your county before you attend the auction (and certainly before you place your first bid).

Knowing these rules will also help you out on auction day, as you'll need to bring a few documents with you. Again, this varies by auction, but here's what you generally need to bring:

- *A valid identification*. Most auctions will accept some form of government issued identification, such as a driver's license or passport.

- *An earnest money deposit*. Most foreclosure auctions require that you arrive at the auction with a $5000 cashier's check made out to yourself. This is often referred to as your earnest money deposit.

  However, you may still need to put down an additional deposit after you make your winning bid, as most auctions require a down payment of at least 5% to 10%. That means that if you're purchasing a property that's more than $100,000, then your deposit will be more than $5000.

As an example, let's say your winning bid is $125,000, which means a 5% down payment is $6250. You'll pay the first $5000 by endorsing the cashier's check. Then you'll need to pay the deposit balance of $1250 with some other form of payment – usually a personal check.

*SECRET: Again, be sure to read the rules. Some auction houses won't accept credit cards or cash to pay the remaining balance, so bring a blank personal check.*

Please note that if you intend to bid on more than one property, then you'll need to put down the deposits on each property. Some foreclosure auction rules state that you need to have a $5000 cashier's check for the first house, and $10,000 check for every property after that they you bid on and win. Make sure you know what's required before you place bids.

Also note: While in most areas you'll need to only put down the 5% - 10% deposit on the day of the auction, some counties may require that you're able to pay for the full amount of your bid on the day of the auction. Others may require the deposit with the balance due just 24 hours later. Still others will give you up to 30 or even 60 days to complete the transaction and pay off the remaining balance.

- *A pre-approval letter from your bank or other proof that you can cover your bid*. Check the auction rules to see if you need to provide proof that you have the money to cover any bids you make.

- *Any co-buyers*. If you're purchasing property together with one or more other buyers, then many foreclosure auctions require that all co-buyers be present for the auction (since everyone will need to complete the paperwork if you win the auction). Please note that all co-buyers must also bring a valid form of identification.

When you get to the auction, present your documents and get registered so you can start bidding.

### *Determining Your Maximum Bid*

Have you ever bid on an eBay auction before? If so, did you ever refresh the page constantly in the last few minutes to see how high the bid was going? And did you ever try to "snipe" at the last moment to win the auction?

I know I have – and that's because I find the auction environment incredibly exciting. It gets my heart pumping. And if you're like me, then you need to show a little discipline and restrain your bidding – that means you need to decide on your maximum bid well before you attend the auction, and then make sure you don't go over that amount.

You see, sometimes it's easy to "fall in love" with a property. This is especially true if you're buying this house as a personal residence or vacation home. Once you start imagining yourself living in it, it's hard to stay rational. It's hard to stick to what you told yourself would be your maximum bid.

> *SECRET: If you're the type who habitually bids more than you wanted to bid on eBay or in other auction environments, then bring someone with you who will make sure you stick to your budget.*

But even a supposedly non-emotional investor can get carried away in the excitement of the auction. This is especially true if you've invested a lot of time researching the property. If you've invested time and perhaps money, then you may feel inclined to bid more than you wanted to just to secure the property.

In other cases, you may find that the competitiveness of the auction environment can create higher bids. Sometimes the same investors show up repeatedly at all the county foreclosure auctions. A bit of a rivalry can develop over time, especially if one particular investor seems to always be interested in the same properties as you. You may find yourself bidding just to bid against this person and "win" – even if it means going over your pre-determined maximum bid.

*SECRET: Whether you're bidding on the home for yourself or for investment purposes, you'll need to learn how to disentangle yourself from these emotional and psychological strings. If you find yourself tempted to bid more than you wanted to bid, just think about how that decision will impact your checking account. Think about how you will feel if you end up losing money on the home.*

*In other words, if emotions are driving you to bid too much, then you need to turn it around by thinking of the emotional impact of spending too much on the property.*

*Secondly, it also helps if you attend a few auctions without bidding. Doing so will help "de-sensitize" you to the exciting environment, which will help you keep your bids low when you do start bidding on these properties.*

Now that we have that the warnings on emotional bidding out of the way, it's time to determine your maximum bid.

If you're buying this home as a personal residence, your first step is to determine your target savings range. In other words, how much do you intend to save by buying a foreclosure versus buying a regular home on the market?

If you're a short-term investor, then you'll need to determine your target profit range. How much money do you hope to pocket in pure profits when you sell the house?

Your next step is to go back to the research we talked about earlier in this book and pull up your comparable sales data. I like to consider the range of prices as well as looking at the average price and the median price. And then to be conservative, I estimate that I'll be able to sell this home on the *LOW* end of the price range. (If I end up selling it for more, that's just extra profits for me.)

Next, you'll need to consider any expenses associated with this home that will become your responsibility, including liens, judgments, taxes, homeowner association fees, insurance fees, closing costs and other fees.

You may also consider the fees and interest you're paying if you're borrowing money to buy the property. Finally, check the auction rules to find out if you'll be charged a buyer's premium or other fee if you win the auction.

Next, you'll need to take into account any repairs that you'll need to make to rehabilitate the property. This includes anything from landscaping to roof or structural repairs to gutting the inside of the house to something as simple as repainting the home.

If you've seen the inside of the house, then this estimate is easy. Simply take note of all the repairs you intend to make and then get estimates from contractors for both supplies and labor.

> *SECRET: I always like to add a little cushion for unforeseen expenses, like an appliance that breaks down after I've purchased the house. In other words, it's a good idea to add a few thousand dollars to your estimates.*

These estimates are a little tougher if you've only performed a "drive by" inspection from the road. It's safe to assume that if the outside of the property is "trashed," damaged or even just plain neglected, then the inside of the property will be in the same condition.

However, what do you do when the outside of the property doesn't yield these sorts of clues?

Sometimes bigger investors (those who regularly buy and resell properties) are willing to gamble a little more with properties. If they come up short on one property, they can usually make it up in a bigger profit on another property. But I don't suggest that you gamble if you're new to real estate investing.

If you're just getting started in real estate investing, then I suggest that you be more conservative. That's because one bad deal when you're just starting out can tie up your time and money for months – and you could end up losing a lot of money, which means you have less capital to work with when you buy another property.

As such, always assume that a foreclosure property has significant damage on the inside. Assume that some rooms may need to be gutted. Assume that you may need to replace cabinets, windows, fixtures and flooring. In short – assume the worst but hope for the best. Doing so will ensure you put a bigger profit or more savings into your pocket.

Here again you'll need to talk to contractors to get an estimate of these repairs. Some contractors will give you an estimate based on the square footage of the house. This is especially true of those who regularly work with foreclosure properties.

The final major expense that you'll need to take into consideration is if you have to start eviction proceedings (if the homeowners still occupy the house). The cost and the length of time it takes to evict someone vary from state to state. You'll want to research the eviction process in your area to get a better estimate.

As a general rule of thumb, however, you can expect that it will cost at least a few thousand dollars in legal fees to evict people out of the house. And while the process can last from a couple weeks to six months, generally you can expect that it will take about two months for the entire eviction process to move through the court system.

While some former homeowners may leave before the foreclosure process is complete, others will stay until they've been forcibly evicted from the house. And that's usually because they're essentially staying "rent free" on the property. If the house is in foreclosure, they've obviously stopped making payments on their mortgage. Since they're homeowners, they also don't need to pay rent.

Indeed, sometimes homeowners who are facing foreclosure are told by friends and family to stay in the house until they're evicted. That means that they could possibly stay in the house for nearly a year from the beginning of the foreclosure until the time they're evicted. You can see why some refuse to leave!

> *SECRET: The above assumes that you've purchased a property where the homeowner refuses to leave voluntarily, in which case you'll need to use the court system to evict the family.*
>
> *However, if you're buying a property from a landlord who defaulted on a loan, then you'll need to check your local laws and regulations regarding what to do about the existing renters.*
>
> *If you intend to keep the property as a rental property, then obviously this isn't a difficult problem – simply keep the current*

> *tenants as renters. But if you intend to do something else with the property (such as live in it yourself), then talk to an attorney to find out what you should do if there are renters living on the property.*

An alternative to evicting the tenants is to make a "cash for keys" offer. Here you may offer them some specific amount to move, which will help pay their moving expenses as well as the expenses they'll incur to rent an apartment, lay down deposits on utilities at their new place, etc.

Later in this book I'll give you several specific ideas about things you can do to make a "cash for keys" offer more attractive to the former homeowners who are still occupying the house. For now, however, just be sure to consider either the eviction fees or the "cash for keys" expenses when you're determining how much to bid.

Now that you have all these figures, you can figure out your maximum bid. Just take the market value of the property (again, use the low end to be conservative), subtract all your expenses (including your cushion for unforeseen expenses), and then subtract your target profit. That number will be your maximum bid.

For example:

Let's suppose that a property you're interested in acquiring has a value of $150,000 on the low end, which means you should be able to get *at least* $150,000 when you put it on the market in good shape.

Let's suppose you've estimated repairs and replacements at $25,000 (this number includes a cushion of $5000 for unforeseen expenses).

Let's suppose you also know that liens, judgments and other fees (including closing costs, insurance, interest fees, auction fees, etc) total $5000.

Let's further suppose there are tenants, so you estimate $3000 for eviction.

Finally, let's suppose you want to make a quick $5000 with this property.

Here, then, is your calculation:

$150,000 - $25,000 - $5000 - $3000 - $5000 = $112,000

The result: $112,000 is the MAXIMUM you should bid on the property.

**A word of warning for investors**

Just because you have a maximum bid doesn't mean that you should bid your maximum. You need to also take into consideration how long your money will be tied up in this project.

Consider this: If you're only looking to make $5000 on the property, then you probably want to repair and resell it as quickly as possible. Doing so frees up your capital (and your time) so that you can reinvest in other properties.

But in the example I used above, you'll see there are tenants. And depending on where you live, it could take two, four or even six months to evict the tenants. That means your money is tied up for six months… *and that's before you even make the first repair*. Then you have to add in whatever time it will take you to repair and resell the property.

Can you afford to tie up your money for that long? If not, then consider how much of a profit you'd need to make in order to be comfortable tying up your money for more than half a year, and readjust your maximum bid to a lower amount. Or, look for properties that don't require eviction and require minimal repair.

### *Can You Bid Less Than the Minimum Bid?*

If you're bidding at a foreclosure auction, then no – you cannot bid less than the minimum bid or the reserve price.

> **Reserve Price:** The reserve price is the minimum amount a lender will sell the property for at auction. Usually, the minimum amount is the reserve price (also called the "upset price").

If you’re interested in putting in an offer for less than the reserve price, then you’ll need to buy pre-foreclosure property from the homeowner or REO property from the bank.

> *SECRET: Some banks will also allow you to send offers directly to them before the auction… but they are unlikely to accept something lower than their minimum bid before they’ve found out if the property will sell at auction. (That’s because the minimum bid is the amount they need to recoup the outstanding loan amount and their expenses.) If they do accept less, it’s referred to as a short sale.*

### ***Quick Recap***

Now you not only know what to expect at the auction, but you also know how to determine your maximum bid. It’s a simple calculation where you estimate all your expenses, subtract these from your estimated value of the home, and then figure out if you can still make a profit.

Obviously, if your maximum bid is less than the minimum bid or reserve price, then you can cross that property off your list. Otherwise, you are free to bid on the property – just be sure to stay away from emotional bidding, and also take note of the bid increments so you know how much you’re bidding.

You may get lucky and win a property at a good price at your first auction. But it’s more likely that you’ll attend several auctions and bid on several properties before you land a good bargain. Be patient.

In the next section you’ll discover what happens after you win …

# Chapter 5

## Payment FAQS: What Happens After You Win a Foreclosure Auction?

As usual, the next steps largely depend on where you live. Generally, however, after you win the auction you find the auction clerk, pay any money that you owe at that time. After you pay the full amount due, then you'll get the "trustee's deed" to the land (which shows you own the property). You then take this deed to the County Recorder's office so that your name is added to the title.

Here are answers to the most frequently asked questions about the closing process…

**Is The Property Yours the Moment You Win the Auction?**

The gavel comes down and the auctioneer points at you and yells "sold!" It's exciting – but the process is not over and the property is not yours… yet.

Obviously, you'll need to take care of the required payments and paperwork, which you'll discover more about in this chapter. However, there's one other thing you need to be concerned with in some states: The redemption period.

The redemption period is a set amount time where the original homeowners (i.e., those who defaulted on their mortgage) can still save their house. Usually if they can come up with the same amount of money you paid for the house along with any other fees, they can buy the property back.

Right now, half of the U.S. states either allow some sort of set redemption period or they allow the courts to decide if there will be a redemption period. The redemption period lasts for as few as ten days to as much as a year (or possibly more).

So what does this mean to you?

It means that you shouldn't start making any repairs or pouring any unnecessary money into a property until the redemption period is over. It also means that if you're purchasing properties in a state with a long redemption period, you need to be prepared to have your capital and assets tied up for a long period of time.

For example, any property you buy in Illinois has a 90-day redemption period. That means you can't even begin working on it until that period has passed (unless you want to risk losing time and money). Then you need to add in your estimates for how long it will take you to repair and resell the property.

End result – your assets will be tied up for at least six to seven months in most cases. You need to consider whether the property will give you a big enough return to make it worthwhile for you to tie up your assets for this long.

### Do You Need to Pay a Down Payment?

In most areas, yes – you need to pay a down payment on the property on the auction day. The down payment is generally equal to 5% or 10% of the purchase price. Some auctions require more.

Here's how it works in many places (check your auction rules for specifics on how it will work at the auctions you attend)…

You go to the auction with at least three things:

- Your valid identification (such as a driver's license).
- A $5000 cashier's check made out to yourself.
- A blank check so that you can pay any other money that's owed.

After you win the auction, you endorse the cashier's check and give it to the clerk. This $5000 "earnest money" deposit usually serves as part of your down payment on the property. If the required down payment is less than $5000, you usually won't get anything back. If the required down payment is more than $5000, then you'll need to write a personal check for the remainder of the down payment.

> *SECRET: Bring a blank personal check to pay the remainder of the down payment. Most auctions will not accept cash or credit cards. If required, you may also need to show proof that you're able to pay for the remaining balance on the property.*

Then, depending on your area, you usually have anywhere from 24 hours to 30 days to pay the remaining balance on the property and close the deal. Once you close, you'll get the deed to the property.

> *SECRET: Again, check your local auction rules, as some auctions require that you pay the full amount immediately at the auction. Other auctions require that you put down a deposit and pay the remaining balance by 5:00 PM that same day.*

**Do You Have to Pay Legal Fees?**

In most cases, yes – you'll need to pay legal fees. Specifically, you'll pay for the legal fees incurred by the bank during the foreclosure process, along with their attorney fees, and any other fees that accumulated.

For example, sometimes during the foreclosure process the homeowner drops their homeowner's insurance. To protect their interest in the property, the lender will often buy their own homeowner's insurance. The lender then adds this cost to the total cost of the loan.

If the homeowner wants to stop the foreclosure process, he'll have to pay all back payments and fees, including these added costs, in order to bring the loan current. If the home goes into foreclosure, then you can expect to pay these sorts of costs so that the lender doesn't lose any money. (And of course the lender isn't going to shop around for the least expensive policy!)

However, the good news is that usually these costs aren't separate from your bid on the house. Usually the minimum bid is the amount the bank needs to recover the outstanding amount on the loan, their legal fees, and other costs associated with the property. And that means that when you calculated your maximum bid, you already took these fees into consideration.

> *SECRET: Do read the auction rules and disclosures carefully, however. Sometimes there will be fees that are separate from the minimum bid. Usually these are auction fees, where you might have to pay a "buyer's premium" of 5%.*

**Do You Have to Pay Closing Costs?**

Yes – in almost all cases, the buyer is responsible for closing costs. Depending on your foreclosure laws, property laws and auction rules, these costs may include (but are not limited to):

- Recording fees. Basically, this is the fee you pay to complete the necessary paperwork. For example, you'll likely need to pay a fee when you take your deed down to the Recorder's Office to get your name added to the title.

- Document processing fees (which may be charged by the auction, by the county and/or by your lender or attorney).

- Homeowner's insurance fees.

- Title insurance fees.

- Document transfer taxes.

- Property taxes.

- Homeowner's association fees.

- Inspection and appraisal fees.

- Utility fees and deposits. (Some utility companies require that you lay down a deposit when you get your service hooked up in your name.)

- Lender fees. If you are buying the property with a mortgage or other loan, then keep track of the fees and interest associated with this loan. These fees may include things like loan origination fees, loan discount fees (where you buy "points" up front to reduce the rate of your loan), credit report fees, lender's inspection fees, appraisal fees, surveying fees, mortgage broker fees, escrow fees, notary fee, attorney fees, and other settlement and inspection fees.

You'll notice that there are a lot of possible fees associated with getting a mortgage. Some fees (like the "points" fee) are what you need to pay up front at closing, no exception. However, some of those other fees can be rolled into the cost of the mortgage so that you pay them as you pay the principle and interest of your loan. Just be sure that you understand all the fees up front so that you can take them into consideration when you are determining your maximum bid.

While generally these sorts of fees and closing costs are your responsibility, there are a few cases where you may be able to avoid these fees:

1. *Buying a HUD home*. If you're buying a government foreclosure property from the Department of Housing and Urban Development (HUD), then sometimes HUD will cover part or even all of your closing costs. Most of the time they'll agree to cover a certain percentage. Check with your local HUD regulations to see if that's true in your area.

2. *Buying a bank-owned home (REO).* If a property goes to auction but doesn't get a minimum bid, then it becomes a bank-owned property. You can make an offer on these REO properties at any time. And along with your offer, you can negotiate closing costs.

### Do You Have to Pay Back Taxes?

Yes!

Remember, most foreclosure property is sold as-is, and that means that any liens or judgments on the property are your responsibility. You can't get a clear title until you take care of these liens and judgments.

Which brings us to the next question, where you'll get more information on this extremely important topic …

### Will You Get a Clear Title?

No, you will not get a clear title when you buy a foreclosure property.

As mentioned, any liens or judgments are your responsibility, which you must pay for before you get a clear title. That's why I impressed upon you earlier that it's so vitally important for you to do a title search and other research BEFORE you bid on a property – because a seemingly good deal can turn into a nightmare if you haven't done your research!

For example, I know of an investor who bid at a foreclosure auction and won the property for $100,000. He thought he had a great bargain. His eyes were lighting up with dollar signs at all the money he was going to make when he resold the property.

Unfortunately, this gentleman was a first-time bidder at a foreclosure auction, so he never ran a title search. He assumed, wrongly, that he would get a clear title. Instead, he was hit with a $150,000 lien that the previous homeowner owed for IRS taxes!

Yikes!

Needless to say, suddenly this $100,000 "good deal" became a $250,000 nightmare that nearly bankrupted this foreclosure auction bidder!

This guy isn't the only one with horror stories. I've seen people buy properties without doing a title search and get nailed with all sorts of expenses. I heard about another guy who didn't do a title search, and was presented with an unexpected expense in the form of a $57,261 mechanic's lien!

These horror stories are enough to make you want to run away screaming from foreclosure auctions. But here's the good news: You can avoid this simply by doing a title search. A title search costs you one or two hundred dollars, which is a small price to pay when you consider that it can save you thousands or even hundreds of thousands of dollars.

Here's a sample of the sorts of things you may need to pay before you can get a clear title on the property:

- A mechanic's lien (AKA construction lien). If the previous homeowner made improvements or repairs to the property but did not pay the bill in full, then there may be a construction or mechanic's lien on the property. This lien may be paid to contractors, plumbers, electricians, landscapers, designers and others who build, remodel or repair the property.

- Back taxes owed on the property.
- IRS or state income taxes owed by the previous homeowner.
- Past-due utility bills.
- Court-ordered judgments. If the person was sued and either lost or didn't go to court (thereby incurring a default judgment against them), any amount owed in this judgment can appear as a lien against the property.
- Equitable lien. If the previous homeowner used the property as collateral on another loan, then this is referred to as an equitable lien.

*SECRET: If you're purchasing REO property, then many times the lender will sell you the property with a clear title. However, this isn't always true – so be sure it's noted in the paperwork whether you're receiving a clear title.*

Just remember: Do a title search and then include all liens when you calculate your maximum bid. And as mentioned previously, sometimes there are expenses that won't appear in a title search, such as past-due homeowners' association fees. Sometimes even bigger liens aren't uncovered. I'll tell you how to protect yourself in the next answer…

**Who Pays for Title Insurance?**

The buyer pays for title insurance. And I absolutely recommend that you purchase title insurance as soon as you're legally able to do so.

Here's why:

A husband and wife decided that they'd secure a bargain home at a foreclosure auction. They put down a couple hundred dollars to have the title company do the title search. The title company told them that they didn't uncover any liens or judgments. In other words, it looked like a clean title.

Fast forward a few weeks when the couple receives their ownership documents. That's when they notice that the previous owner of their home is being foreclosed on by another mortgage company – and there's a lien on the property they just purchased. This husband and wife are now responsible for this lien.

How did this happen?

Simple: Because a title search is only an opinion about whether a title is clean. It's not a legally binding GUARANTEE that the title is free from liens, judgments or other encumbrances.

That's where title insurance comes in. You need only spend a few hundred dollars on title insurance, and you're protected if an in-depth search on the title later reveals other encumbrances.

**Can You Add Contingencies to Your Bid?**

No, not at a foreclosure auction. And that's because most foreclosure properties are sold "as is." Be sure to include in your maximum bid a cushion for extensive repairing and remodeling.

However, you may be able to negotiate and add contingencies to the purchase contract at two other points in the foreclosure process. Namely:

1. *During the pre-foreclosure stage*. If you're buying a property directly from the homeowner (as the case might be if they're trying to avoid foreclosure), then you can draw up a traditional purchase contract through which you negotiate the offer by adding contingencies.

2. *If you're buying REO property*. If the foreclosure auction didn't end in a sale, then the bank will need to list the property elsewhere and attempt to sell it on their own.

> *SECRET: As mentioned previously, be absolutely sure you understand what you're getting, as many banks sell their REO properties "as is." (Meaning you may still need to make repairs and settle liens to get a clean title.)*

Because the bank is selling the property in a more traditional way – perhaps even with the help of a real estate professional – some of them may be open to negotiations. That means that you can submit contingencies with your offer. If the bank does accept contingency submissions, they may counter-offer. Just be aware that these offers and counter-offers can take several days each.

Also, be aware that even if the bank accepts your offer, THEY may submit a contingency to you, such as "On approval from corporate headquarters." That means that while the local bank accepted the offer, the offer isn't binding until their corporate headquarters have also agreed to your offer.

So, what sort of contingencies might you submit? The most common contingency is an "upon inspection" contingency, where your offer is binding pending a complete and satisfactory inspection of the home. That means that you can walk away from the deal without penalty if the inspection turns up things like:

- Smoke or fire damage.
- Water damage or flooding.
- Structural or roof damage.
- Pest damage or problems (bats, mice, termites, rats, etc).
- Other interior or exterior damage that requires repair.

If you do submit this sort of contingency along with your purchase offer, just be sure that you detail exactly what discoveries or repairs would allow you to walk away from the deal. Your attorney can draw up your offer to make sure you're thoroughly covered.

*SECRET: An "upon inspection" contingency means that you can either walk away from your offer without penalty, OR the lender will be required to make the repairs if they accept your offer.*

The inspection contingency is perhaps the most important contingency you can offer, as it takes the guesswork out buying the property and insures you are getting a property that's in good shape.

However, there are other contingencies you may consider – although keep in mind that any contingencies you include just slow down the approval or counteroffer process. Here are a few other contingencies that are sometimes submitted:

- Loan approval contingency. This occurs when you haven't yet been guaranteed a loan or mortgage from a lender for the property (which often happens if the lender hasn't yet been able to inspect and appraise the property). You may make your offer contingent upon you securing the funding.

- Clean title contingency. Your offer is contingent upon the bank giving you a clean title with the property.

- Selling existing home. If you're purchasing the REO property but still need to sell an existing home, you may make an offer that's contingent upon you first selling your existing home (within a certain number of days).

**Can You Get Financing for a Foreclosure Property?**

The only one who can answer this question with any certainty is your lender. And that's because I don't know your credit history nor do I know the condition of the property you're trying to purchase.

However, let's assume for a moment that you have a good credit history, so you're fairly certain that getting financing won't be a problem. Keep in mind that even though YOU might qualify for the loan, the property you're purchasing might NOT qualify for the loan. In other words, lenders don't like to write mortgages for properties that they haven't inspected and appraised.

If you do find a lender willing to help you finance your loan, then it's a good idea to get pre-approval. That way, if needed, you can bring a pre-approval letter with you to the auction. (Check the auction rules, as some auctions require that you bring a pre-approval letter or other proof that you can pay for the property.)

> *SECRET: Getting pre-approval is much better than getting pre-qualified. Getting pre-qualified means that the bank is willing to go through the initial loan-approval steps with you. Getting pre-approval means that you've <u>already</u> completed those steps, and thus the chances that you'll be able to secure the loan are greatly increased (though still not guaranteed).*
>
> *If you need to show proof at an auction, you'll need to bring a pre-approval letter (NOT a pre-qualification letter).*

In order to get pre-approved for a mortgage loan, your lender may look at your credit report, tax forms and bank accounts. In particular, they'll pay attention to:

- Your demonstrated ability to repay loans on time. If you've made any late payments in the last year, you may have to spend 6-12 months rebuilding your credit history.

- How much of your available credit is tied up. If you're carrying large balances on your credit cards, that's generally not a good sign. Lenders often like to see a lot of available credit with very little of it actually in use. A lender may even request that you pay off some or all of your credit card debts or other loans before they approve your mortgage loan.

- Your work history. Generally, lenders are looking for at least two years of stable work history. Jumping between jobs and careers will go against you.

- Your assets. Owning property such as a home, car, boat, motorcycle and so on are good things, especially if you aren't carrying loans on these items. Obviously the lender will also want to know how much you have in the bank (and how much money you're willing to put as a cash down payment on the property).

- Judgments and liens. Your lender will also inquire about any outstanding judgments or liens against you or your business.

- Co-signers. Your bank will also want to look at the same history and documents of any co-signers on your loan.

*SECRET: If you're buying a property during the pre-foreclosure phase, then you have another option: Assume the original mortgage. Often it may be a matter of taking over payments.*

## What If You Can't Get a Mortgage?

What if you or the property doesn't qualify for a traditional mortgage loan? Then here other options for you to consider:

- Pay cash. But here again you need to be aware of how long your money will be tied up in the property, so that you don't tie down cash that you may need in the foreseeable future.

- Secure a "hard money" loan. This is a loan that isn't specifically for a home. The interest rate is usually higher. And you may have to put up something valuable for collateral.

- Get investors. Sometimes people have the money to invest in foreclosure properties, but they're not interested in the "grunt work" and research that's involved. You can buy properties by having one or more "silent partners" provide the cash for the properties while you provide the research, legwork and repairs.

**What If You Have Put Down Your Deposit, But You Can't Secure Financing?**

First off, you will lose your deposit. In most cases, that means you'll lose at least $5000 (your earnest money deposit), and likely more if you were required to pay a bigger deposit.

Second, your inability to secure financing does not mean you can legally back out of your contractual obligations. If you bought a home at a foreclosure auction, then you agreed to pay for the full amount of the property. Not only will you lose your deposit, but you can also be sued for the remaining balance that you owe on the property (i.e., the amount you agreed to pay when you bid on the property).

If you're not sued for the full amount of your obligation, the bank may just put the property back on auction or list it for sale elsewhere. If the bank receives less money for the property than what you bid for the property, they usually have the right to sue you for the difference.

For example, let's suppose you bid $150,000 on the property, but you backed out of your contractual obligations because you couldn't secure financing. If the bank then sells the house elsewhere for $125,000, they could sue you for the difference – in this case, $25,000. You'd be out the money and you wouldn't even own the property – that's a bad deal for you, obviously.

To avoid this sort of nightmare scenario, just follow these tips:

1. Always make sure you're pre-approved for financing BEFORE you bid, or make sure you otherwise have the cash in hand (such as your own cash, cash from investors, a hard-money loan, etc).

2. Read and understand the auction rules, foreclosure laws and your purchase contract so that you know your obligations.

3. Make a "Plan B." If your primary financing falls through, be sure to have a back up plan. For example, if you or the property doesn't qualify for a mortgage, then be sure you have cash, other loans or investors standing by to help you finance the property.

   *SECRET: If you're buying property in a county or state where you need to immediately pay the balance or pay the balance within a day or two, then you'll need to BE SURE you have the financing in hand before you bid. Don't rely on your ability to find financing at the last minute – because even if you know you can get a loan, the lender may not be able to process it before you need the cash.*

If something does happen and you can't fulfill your contract, get a good real estate attorney.

The above applies to what happens if you can't get financing after you place a winning bid at a foreclosure auction. However, remember this – if you're buying pre-foreclosure properties or REO properties, then you may be able to submit contingencies with your offer. And that means you could make your offer contingent upon you being able to secure financing.

### What If You Don't Want the Property?

If you back out of the deal, then in the best-case scenario you'll lose your deposit. At worst, you may get sued for the balance, or you may get sued for the difference if the house gets sold for an amount lower than your bid. (You may also be responsible for paying any re-listing fees, attorney fees, etc.)

The most common reason that people back out a deal is because they couldn't secure financing. But sometimes people back out for other reasons, including:

- *Buyer's remorse*. Perhaps the investor or potential homeowner got caught up in the excitement and bid way more than he wanted to. Buyer's remorse might kick in just a few hours later when the bidder realizes he didn't really get that great of a deal.

- *Change in circumstances*. In the states where the bidder has anywhere from a few weeks to a few months to pay the remaining balance on the property, sometimes circumstances change. The buyer may lose his job, become disabled, someone else in the family may die or become disabled, etc… all of which means the bidder may lose his enthusiasm for buying the property.

- *Property is worse than anticipated*. Savvy buyers assume that the house will require significant time and money to repair. But sometimes when they get inside the property they find it's even worse than anticipated, with all the wiring and plumbing ripped out of the walls, the interior is destroyed and things like the hot water heater and fixtures are gone. The investor may decide the property is not worth the time and expense.

Those are just a few reasons a buyer may back out, but obviously there are others. Some of them are unavoidable, such as the change in circumstances. If something like this happens to you, then again my advice is that you hire a good real estate attorney. A good attorney may not be able to recover your deposit, but they could keep you from getting sued for the full amount of the property.

> *SECRET: If you back out of the deal, you'll likely also be barred from bidding at any more auctions in that county.*

**Do You Need to Buy Homeowner's Insurance?**

Yes – as soon as possible! You need to protect your investment.

However, let me give you a word of warning – here again you need to thoroughly understand the laws in your county and state. And that's because you may have trouble getting insurance on a property that you don't yet own. That means it may be difficult to get insurance before you close, and it may even be difficult to get insurance during the redemption period.

I know a couple of investors who had this exact problem. They had trouble securing homeowner's insurance during the redemption period, as in their county they weren't considered the official owners yet.

Get this – the property burned to the ground. Since they had no insurance to cover their losses, the only asset they had left was the land that came with the property. But they had no way to recover the amount they lost on the house.

Now, there's a good chance that you won't run into this sort of problem in your area. Possibly, you may be able to purchase homeowner's insurance even if you're in the redemption period. Or you may be able to purchase a different type of policy, such as "vacant dwelling" policy.

Bottom line: Talk to an insurance agent and be sure you have insurance lined up immediately after you purchase a foreclosure property.

## Quick Recap

You've just received answers to the most frequently asked question about what happens after you bid at a foreclosure auction, including:

- What closing costs and fees you're responsible for after you bid.
- What happens if you can't secure funding to pay the balance of your bid.
- Other sources of funding besides the traditional mortgage.
- What you need to know about liens and other encumbrances that could cost you a lot of money.
- What title insurance is and how it protect you.
- How to protect your investment with homeowner's insurance.

And much more.

Now it’s time to turn our attention to the closing. In the next section, you’ll discover how to close on the property, when you’ll get the actual title, and everything else you need to take possession of your property.

# Chapter 6

## Closing FAQS: How to Close and Take the Title on Your Property

You've gone to a foreclosure auction and come away as the high bidder on a property. You put down your $5000 cashier's check and then made out a personal check for the remainder of your down payment.

Now what happens?

As mentioned previously, you now have anywhere from a few hours to a month or so to fulfill your contractual obligations by paying the remainder of the balance on the property. Even if you're given a longer time to come up with the balance, you should get this taken care of as quickly as possible. And that's because you'll want to take ownership of the property as soon as you can after the sale date.

Consider this – if the property is currently occupied, and if your state doesn't have a redemption period, then you'll need to start eviction proceedings or make an offer to the homeowners to leave the premises peacefully. The sooner you start these proceedings OR the sooner you make the "cash for keys" offer, the faster you'll get them off the property. And that allows you to get inside the house to clean it, repair it and otherwise rehabilitate it.

Bottom line: The faster you're able to get inside the house to do these things, the faster you can either move into the house yourself or resell it to someone else.

Obviously, closing on the house is important on a vacant property for the same reason. Namely because it allows you to get inside the house to clean and repair it.

But there's another reason you want to move quickly on a vacant property. And that's because vacant property is much more likely to be vandalized, have a theft occur on the property or have trespassers take up residence on the property. (This is why you may need to pay higher insurance premiums and often you need to get a special type of "vacant dwelling" policy for vacant properties.)

I’ve heard the range of horror stories here. A boarded-up, foreclosed house (especially in a high-crime neighborhood) easily becomes a target. It might be a target for bored teenagers, who spray graffiti both inside and outside the house, break windows (if the windows aren’t all boarded up), punch holes in the walls and maybe have a party inside.

Now imagine this – you have a boarded-up house that hasn’t had much ventilation for several months. Meanwhile, you have people drinking beer, smoking cigarettes, and leaving half-eaten McDonald’s burgers on the floor. You can bet when you go into the house that it won’t just smell stale – there might actually be a heavy stench that’s hard to eliminate.

At other times, a vacant foreclosure property looks vacant from the outside. That is until the surprised new owner of the property unlocks the door to find homeless people seeking shelter inside the property. Some of these people have been repeatedly kicked out of homeless shelters for violating their rules (often their drug rules), so they take up shelter in a vacant house rather than spend another night outside.

Or worse yet, imagine the surprise of those new property owners finding the remnants of a “crack house” or evidence of prostitution inside the property. This is especially likely to happen if the property isn’t boarded up, because often times the heat and electricity are still on.

Even in relatively safe neighborhoods, foreclosure properties can become targets. You may not have homeless people squatting in them or drug dealers running their operations out of them, but you may find evidence of bored young people who’ve broken into the property.

Will this happen to your property? Obviously, that largely depends on the neighborhood and the condition of the property. But the point is, the faster you can take title of the property, the more likely it is that you can prevent these sorts of problems.

### When Do You Get the Title?

The timeline for closing, getting the title and taking possession of the house depends on your state and local laws.

Generally, the *soonest* you'll be able to get the title is anywhere from a couple days to a week or two – and that's assuming that you pay the balance on the property within a few days after the sale. Then the foreclosure trustee or auction company either gives you the deed (which you take down to the County Recorder's office), or they submit the deed to the Recorder directly.

> *SECRET: Make sure the auction house or the trustee gives you all the paperwork required to show that you now own the property. Also, inquire if there are any additional steps required for you to take possession of the property.*

Either way, it may take up to a couple weeks for the paperwork to be completed so that you can take the title. If the auction company is sending the deed to the Recorder, then you can expect a few days delay due to the extra step involved. Obviously, if you don't close until 30 or more days after the sale, then it will take that much longer to receive the title.

If your state has a redemption period (which gives the original homeowners a chance to buy back their home), then *sometimes* you won't get the title until AFTER the redemption period. So even though you may pay for the balance of the home, you won't actually get the title for anywhere from 10 days to a year. In other cases, you may officially own the home and hold title, but you aren't able to take possession of it until after the redemption period.

Again, check your local laws to see what the rules are regarding the redemption period and receiving the title.

> *SECRET: Also remember to talk to your insurance agent to find out if you're able to insure the property. Some insurance companies may suggest that because you aren't yet the homeowner, you cannot insure the property. But the previous homeowners probably aren't insuring it either, which leaves your investment unprotected.*
>
> *Fortunately, most insurance companies (and local laws) will recognize that you have an "insurable interest" in the property. That means that while you don't technically own the property yet (especially if it's in the redemption period), you still stand to*

*lose money if the property is damaged or destroyed. As such, that generally gives you the ability to insure the property.*

*Please note that this is not legal advice, as I am not a lawyer. Talk to your insurance agent and/or a lawyer to find out how you can legally protect your investment.*

**What If You Can't Close on Time?**

If you can't close on time, discuss this with the seller or trustee. Often they may be willing to extend the date of closing by a few days or a few weeks, but usually this extension comes at a price. For example, a friend of mine recently had to extend a closing date by a few days, and he paid $100 per day for each day past the original closing date.

**What Do You Need to Do After You Close?**

You probably were able to purchase insurance on your property already. But if not – then be sure to do so immediately after you close (i.e., do so at the moment you're legally able to do so).

Once you take possession, you may also talk to your insurance agent to see if the policy should now be changed. In some cases, it may change because you're the official homeowner. In other cases, it may change if you or someone else is immediately moving into the property so that it's no longer vacant.

*SECRET: You should also purchase title insurance as soon as you are legally able to do so. Please note that some title companies will not offer title insurance for foreclosed properties, so shop around and do your research well before the time you're actually in the market for title insurance.*

Next, you'll have to pay off any liens, judgments or other encumbrances on the title in order to get a clean title. You'll also need to pay property taxes, homeowner's association fees, utility bills and any other expenses as soon as they come due.

*SECRET: Here's a tip that can save you some money: If your state has a redemption period, then file an affidavit proving that* *you paid the insurance, taxes and other bills. That way if the original homeowners redeem their property, you may be able to get these expenses back from them before they can reclaim the property.*

**What Happens to the Personal Property?**

When you actually take possession of the house, you may find personal property inside. In some cases, it might just be an item or two that the previous homeowners couldn't move, such as a couch or other large item. In other cases, you may find quite a few things such as dishes, books, clothes, furniture and more.

When you bid at the foreclosure auction, you were bidding on the real estate property only, not the personal property. And that means that the original owners still have rights to their properties.

What you do with this property largely depends on your state and local laws. You should read these laws and/or contact an attorney to find out what is the best course of action. Generally, you'll need to make a reasonable attempt to contact the previous homeowners and tell them how to reclaim their property.

**What Can Delay the Process of Taking Possession?**

As you've already discovered, you may get the title of the house but yet be unable to take possession of the house. Here are three of the most common reasons the process may be delayed:

- *Delay due to the redemption period*. If you did your homework, then you already know about this delay. Remember, don't put any money or time into repairing the house, even if it is vacant, because the money will be lost if the previous owners save the home.

- *Delay due to eviction proceedings*. If the house is currently occupied, then the best case scenario is that the tenants will leave within 72 hours after you post the initial eviction notice. However, many times the process ends up dragging on for weeks or even months since you need to go through the courts to initiate and carry out a legal eviction.

- *Delay due to owners challenging the foreclosure*. In some cases, you may have an owner attempting to challenge the foreclosure in court, perhaps by saying that they were never properly served with the foreclosure notices.

  It's probably unlikely that the previous homeowners will win this case, as most foreclosures are carried out legally. That means that the notices were served in person or by certified mail. Either way, there's proof that the homeowners were served.

  Nevertheless, even if the previous homeowners can't win the case, the case will cause a delay as it moves through the court system (and will cost you attorney fees). However, in my experience this is a fairly rare occurrence, as most foreclosure homeowners don't have the money to mount a legal challenge. (And if there is a redemption period, then it's even less likely the previous owner will challenge the foreclosure.)

- *Delay due to tenants challenging eviction*. Most people will eventually leave the home – even if that means being forcibly evicted by the sheriff. However, every once in a while you may have the occupants challenging the eviction. Usually this means they need to post a bond equal to two mortgage payments or two months of rent (or they need to sign a "Pauper's Affidavit") in order for the court to hear the case. However, most buyers win the case – so while you may lose time and money to attorney fees, you'll likely keep the property.

  > *NOTE: Again, this isn't legal advice. If someone challenges you in court, seek legal counsel.*

- *Delay due to "fraudulent transfer" challenge*. If you buy a house that's in pre-foreclosure, then you need to be aware of this potential pitfall.

  Here's a case where a homeowner may sell the house to you directly, perhaps when a foreclosure proceeding is looming. Then soon after, he claims bankruptcy. Basically what he's done is sold or transferred his assets, which is not acceptable under bankruptcy law in most state.

As such, the bankruptcy trustee may mount a legal challenge to your ownership of the property, saying that the property was fraudulently transferred to you. You may even end up becoming a creditor in the bankruptcy proceedings. If this happens to you, seek legal counsel to determine your rights and to find out what steps to take next.

**What Happens if People are Living in the House?**

If you've purchased a rental property (due to a landlord going into foreclosure), then the people who are living on the property are tenants. If you intend to keep the property as a rental property, then this isn't a problem – all you have to do is seek legal counsel so you can draw up new leases (if need be).

But what if you don't intend to keep the property as a rental property? What if you intend to live in it yourself, keep it as a vacation property, or use it for some other use other than a rental property? In this case, you again need to seek out legal counsel.

That's because the laws are changing across the country even as I write this. Some states and counties have started putting into place laws that protect tenants from becoming the innocent victims when the person they rent from goes through foreclosure.

Depending on your state and local laws, you:

- May be required to keep them as tenants.
- May be able to move them ONLY if you take on the property as your person residence.
- May be able to give them reasonable notice to find a new place to live.

Again, check your local laws – and take note that many of these laws are changing due to the mounting foreclosure crisis, so stay current.

Finally, here's one of the most common situations – what do you do if the previous homeowners occupy the property, but they refuse to leave after the foreclosure auction?

First, if your state has a redemption period, then there's probably not much you can do during this period. And indeed, if the tenants take care of the property, it's probably better to have the property occupied rather than vacant during the redemption period.

But what if the redemption period has expired or your state has no redemption period? In that case, you have two options:

1. Make the occupants a "cash for keys" offer, offering them cash to move out of the property in a specified amount of time. You may also stipulate that the property be cleaned before they vacate.

2. You start eviction proceedings.

Let's quickly look at these separately.

### *Making a "Cash for Keys" Offer*

Remember in the beginning of this book where I discussed the mindset of a homeowner who's just starting to go through the foreclosure process? They're often scared, emotional and unable to think rationally.

Here again is a time that you need to take into consideration the previous homeowner's mindset. If he's refusing to leave, that gives you a clue right there about this mindset. He may feel like you, the lender and the state have stolen his property. He's upset. And if you evict him outright, he may retaliate by vandalizing or even destroying the property.

Here again I've heard plenty of horror stories from my friends and colleagues. I've heard about a man who tried to burn down the place. I heard about another guy who stripped the house of all the wiring and plumbing. I heard about a lady who left behind 17 cats… and hundreds of thousands of fleas.

(And those are the stories that ended up with happy endings!)

I can tell you from personal experience as well – it's far better when someone leaves a home voluntarily rather than being forced to leave.

Fortunately, not all homeowners will retaliate. Indeed, some of them are purposely staying because their friends and family have told them that they may get offered a "cash for keys" deal.

*SECRET: Why should you even make the offer, aside from fears of retaliation? The reason: Because if you have to evict the tenants, it's going to cost you time and money anyway. If the eviction proceedings drag out, it could cost you several thousands of dollars.*

*As such, here's a chance for you to get a guarantee that the property will be vacated relatively quickly and in good condition … and you may even be able to make this offer for less than money than it would take to go to court.*

Generally, you offer some amount of cash to the occupants if they agree to leave the house in a certain condition within a certain timeframe. You may even offer larger amounts of money if they leave sooner, such as $3000 if they vacate within three days, $2000 if they vacate within seven days, $1000 if vacate within 14 days and $500 if they vacate within 21 days.

Additionally, you may sweeten the deal by offering something in addition to the cash. For example, your offer may include things like:

- You agree to pay for the expenses involved in renting a moving truck (e.g., like a U-Haul truck).

- A dumpster that you agree to rent and then haul away (so that the occupants can throw out anything they don't intend to take with them).

- You hire people to help them on moving day (e.g., hire a crew of people to help them pack and move the boxes and furniture into the moving truck, and perhaps even unload them at the new place).

- An offer to rent a storage unit for one or two months so they can store anything that doesn't fit in their new place.

And so on.

In return, you may make negotiate terms that are favorable to you, such as:

- The occupants agree to move by a certain date.

- The occupants agree to sign a legal paper saying they won't redeem the property. (NOTE: Check with your attorney before drawing up this sort of agreement, as it may not be legally binding in all cases.)

- The occupants agree to leave the property undamaged and clean. (This means they probably don't have to steam clean the carpets, but they should at least vacuum, sweep and dust all rooms.)

One note, however: Just be sure to stipulate that the occupants will get their cash after they've fulfilled their end of the "cash for keys" contract. I've known a few foreclosure buyers who received a promise from the occupants to leave, and so they paid the money up front to the occupants. The occupants kept the money … and stayed. The buyer was not only out this money, but he had to start the eviction proceedings!

### *Starting Eviction Proceedings*

If you need to evict people from the house, then be aware that there is a formal legal process you must follow. If you follow this legal process according to your local laws, then in many places the eviction will go smoothly and relatively quickly. But if you try to skip any steps, the eviction case can be thrown out and you'll have to start the entire process over.

As such, the best advice I can give you is to hire an attorney who specializes in evictions. That way you eliminate the chances of running into any delays.

> *SECRET: Actually, the best advice I can give you to avoid the eviction process and the possible delays is this: Buy vacant properties!* ☺

The eviction process and timeline vary from state to state. However, here's generally what you can expect during this process:

1. You post a legal notice informing the occupants that they have 72 hours to vacate the premises. The occupants are served notice in person or sometimes via certified mail. Often the notice is posted on their door or window.

2. If the occupants don't leave within the specified time frame (usually 72 hours), then you'll need to go to a court hearing. This is where you present your case to the judge that the tenants should be evicted. If you've purchased the property legally, then generally the judge will find in your favor.

3. The occupants may have a specified time to appeal after the judge's decision. The time varies, but is usually ten days or so.

4. The occupants now have a court-specified date that they must move out. If they still don't move out by the specified date, then you'll need to obtain an execution of the eviction.

5. At this point, the sheriff usually goes to the property and tells the occupants when they'll be forcibly evicted. It may be in as little as 24 to 48 hours.

6. On eviction day, the sheriff will go with you to the property and the tenants will be forcibly evicted. At this time you'll haul their personal property out of the house and then change the locks. If the occupant interferes with the process, they can be arrested.

If you're lucky, the occupants will leave within those first 72 hours when you initially post the eviction notice. If not, then the entire process can take anywhere from several weeks for a few months to go through the court system. And if the occupants appeal the decision or mount any other challenges, that just adds to the delay.

That means that if you purchase an occupied property, you need to be prepared for the possible expense of an eviction procedure. You also need to be prepared to be unable to work on or even enter your property, plus have your investment tied up as your case makes its way through the court system.

I have gone through evictions both with and without an attorney. From my experience, it is worth paying an attorney to handle the proceedings for you.

**What If You Find Hidden Defects In the House?**

You have the title, the occupants have left the property, and you can finally take possession of the house. But what happens if you go inside to discover a hidden defect, such as stripped wiring, a broken furnace, roof damage, or something else? Do you have any recourse?

If you've purchased a property at a foreclosure auction, then unfortunately you probably do not have any recourse. And that's because you likely signed papers where you agreed to accept the property "as is" and without a warranty of any kind. That means that any damage or defect becomes your responsibility.

> *SECRET: If the damage occurred after you purchased the property – and you can prove it – then your insurance company may offer you a settlement for any damage or defect. That's why it's so important for you to secure homeowner's insurance (or a similar policy) as soon as you're legally able to do so.*
>
> *If possible, you and your insurance agent will also want to thoroughly document the property with pictures, so that you can prove that certain damages weren't present when you purchased the insurance.*

If you buy a bank-owned (REO) property, then it's possible you may have recourse. But that's only true if you submit contingencies and those contingencies are accepted by the bank. Refer back to the chapter in this book where I discussed contingencies for a list of some of the more common contingencies you may submit with your offer.

**Quick Recap**

In this section you discovered:

- How long it generally takes for you to close and take title on the property.
- What to do if you can't close on time.
- What events might delay you taking possession of the house.
- What to do with any personal property you find in the house.
- What are the dangers of having a property sit vacant for an extended period of time.
- How to make a "cash for keys" offer to occupants of the house.

- And how to legally evict the occupants.

We've covered the entire process of finding, researching, buying and taking possession of foreclosure properties. Now let's turn our attention to the market itself and the experts' predictions about the number of foreclosures we'll see on the market in coming years.

# Chapter 7

## Market FAQS: What You Need to Know About Current Market Trends

If you're purchasing a foreclosure property as a personal residence or as a vacation home, then you probably don't need to know how the market is currently changing and what you can expect to see within a few years. However, if you're an investor, then you'll want to read this chapter carefully. Doing so will help you make more money on your future investments.

Allow me to answer some of most frequently asked questions about current market trends and forecasts.

### *Is There More or Less Competition in the Current Market (Versus Previous Years)?*

The short answer is, yes, there's more competition because the foreclosure inventory is growing. As the inventory grows, more people begin to take notice of the potential bargains. And that creates more potential buyers.

In addition, home construction has slowed in recent times in the United States. Partly this is because supply exceeds demand. But also, lenders are dropping their rates in an attempt to get the foreclosures off their books, which results in people being able to buy a home for less expense than they are able to build a home.

For example, in the current market in Florida you can find nearly identical homes in the same neighborhood on which the buyer can save $100,000 or more if they buy the foreclosed home vs. purchasing a new home that's currently under construction. And if buyers can inspect the home and get a clean title, then that sort of savings opportunity becomes a "no-brainer."

That means people who are looking to buy homes will be buying existing homes, rather building new homes. And since there are more foreclosure homes on the market than we've seen in many years, home buyers will naturally consider buying these foreclosure properties alongside the more traditional real estate.

Yes, this means that you'll have more competition, both from private home buyers and from other investors compared to years past. That doesn't, however, mean that you'll be unable to secure any good bargains for yourself. There is now such a great selection to choose from, and foreclosed homes are in much better shape than they were just a couple of years ago. Those two key points more than make up for the additional buyers in the market.

In fact, I would say that while there are so many foreclosures out there – and more coming, remember – that potential buyers will find themselves in *fewer* bidding wars than they would have just two or three years ago. And that's with many, many more buyers out there now.

I would also like to emphasize here that it's important to work with the right real estate agent when buying a foreclosure property. If you are concerned at all about competing against other potential buyers, then the smart thing to do is make sure you have the right help in your corner!

> *SECRET: While nationally the competition to purchase foreclosure properties may increase, you may still find very little competition in your particular area. And that means you can still snap up some great bargains without having to bid against a lot of other people.*

**What Does the Historical Foreclosure Data Look Like?**

Right now we're in a period that has one of the highest percentages of foreclosures in the United States. Just look at this data:

- In the 1970s, the percentage of property that went into foreclosure ranged from a low of .33% in 1970 to a high of .5% in the mid 1970s.

- In the 1980s, the percentage of property that went into foreclosure ranged from a low of .5% to a high of 1.3% by the late 1980s.

- In the 1990s, the percentage of property that went into foreclosure ranged from a low of .9% (in 1990) to a high of 1.1% (in 1997 through 1999).

Now that we're ending the 2000s, we've again seen a range in the percentage of properties that have gone into foreclosure. In 2006, the percentage of houses in some stage of foreclosure was as low as .58%. Just one year later (in 2007) more than 1% of all homes were in some stage of foreclosure. And some states (like Florida) had foreclosure rates of 2% or more.

The trend continued through 2008 and early 2009, as foreclosures continued to rise. The statistics show that the number of foreclosures in 2008 jumped 112%, reaching a nationwide average of 1.8% in the United States.

Indeed, some experts predict that one-quarter to one-third of all homes on the market in early 2009 will be bank-owned (foreclosure) property. And what does this mean to you? It means there will be plenty of foreclosure auctions for you to bid on and make offers for quite some time.

**What Are the Experts Forecasting for the Foreclosure Market?**

Generally, you can expect that the number of foreclosure filings will continue to increase for a couple years, and then level off.

That's because lenders in the United States (with government help) are still trying to dig themselves out of the sub-prime mortgages and adjustable-rate mortgages that helped spur some of the foreclosure filings.

In addition, the United States is in a recession, which will take many months to resolve. Some of the biggest employers in the nation are laying off thousands if not tens of thousands of workers each, including big companies such as Starbucks, Caterpillar, Macys, Pfizer, Sprint Nextel, Home Depot, Best Buy and many more. This doesn't even include the tens of thousands of jobs being shed as banks, lenders and other companies in the financial sector downsize, close or even go bankrupt.

In addition, one of the nation's largest industries – the automobile industry – is at risk of going bankrupt. Since there are an estimated 2.5 million jobs associated with the industry, you can see that even small cutbacks or downsizing can lead to tens of thousands of lost jobs.

Obviously, when people lose their jobs, they can't afford to pay for their homes. One of the results is they default and go into foreclosure. This, plus the fact that the lenders are still sorting through the adjustable-rate and sub-prime mortgages, means that we can expect to see the foreclosure rate continue to increase for a couple years before it starts leveling off.

Most experts predict that the United States will see a record number of foreclosures through at least 2009 and likely throughout 2010 as well. By 2011, experts predict that the foreclosure rate will level off and perhaps begin to decrease.

While those who predict record-high foreclosure rates through 2009 and 2010 point to the adjustable rate mortgages and the rising unemployment rates, there are also those who already see the signs that the housing market will recover and foreclosures will decrease.

These signs include:

- *Mortgage rates have dropped*. Since mortgage rates have dropped to the lowest we've seen in the many years, those that do have money and stable jobs will find it's an excellent time to buy property.

- *Unemployment isn't as bad as some think*. If you read or watch the news, then you've probably seen the near-constant "doom and gloom" reports. Every night, you hear about companies laying off thousands of workers. And you have the TV commentators painting a frightening picture.

  While the nation is in a recession and the unemployment numbers are higher than they've been in quite some time, some experts suggest that they really aren't as bad as people think. At the time of this writing, the unemployment rate was over 7%, meaning it hasn't yet reached the levels seen during the 1990 recession, and it's not even close to the double-digit numbers seen in the 1980s.

- *The population is growing*. As families expand, they seek out bigger houses. As these children grow, they buy their own property. In short: As long as the population continues to grow, you can expect to see the demand for housing continue to grow as well.

**Quick Recap**

Over the past 30-plus years, the foreclosure rate has shown an overall trend of slightly but steadily increasing. Over the course of each decade, we've seen peaks and valleys in these rates. Right now we're in a peak – in fact, we're seeing a record-number of foreclosures, and we can expect to see this trend for a couple more years.

While a large foreclosure inventory means you'll likely have more competition, it also provides you with more opportunities and choices. In the next section, you'll discover some of the strategies you can use to make more money in the foreclosure market, and some of the pitfalls you should try to avoid.

# Chapter 8

## Investing FAQS: Foreclosure Investing Strategies and Pitfalls

Should you purchase foreclosures in a declining or inclining market? If you're a short-term investor (flipper), what should you do when you can't move property off your inventory lists as quickly as you usually do? And what sorts of acquisition and investment strategies are available to you?

You'll find the answers to these questions and many more in this chapter.

### What's the Difference Between Investment and Acquisition Strategies?

First, let's quickly define these terms …

> ***Acquisition strategies*** refer to how you acquire your investment (e.g., how you bring it into your possession).

***Investment strategies*** refer to what you do with the property once you've acquired it.

Let's look at these separately.

### *Acquisition Strategies*

There are plenty of ways to acquire investment property. For the purposes of this manual, I've focused on one of the most popular ways – namely, by buying foreclosure properties. And specifically, we've touched on three ways to do exactly that, including:

- *Buying pre-foreclosure property*. This is where you work with the homeowner directly by offering to purchase their house before it goes into foreclosure. The homeowner avoids foreclosure, and you generally get the property below market value.

- *Buying at a foreclosure auction*. There are good deals at foreclosure auctions, but only if you do your research first.

- *Buying REO property*. Here you purchase bank-owned property that didn't sell at auction. This is considered less risky than purchasing at a foreclosure auction, but with reduced risk often you'll see reduced profits, too.

One thing we didn't touch on with regard to buying REO property is the fact that you can make a "short sales" offer to the bank. This is where you make an offer that's less than the amount the bank needs to clear their books of their outstanding debt and legal fees.

Some banks will accept these sorts of offers. And that's because they're in the business of lending money – not holding real estate. Sometimes they prefer to just move the property off their books – even at a slight loss – rather than go through the time and expense of selling the property. Their loss is your gain.

While these are the strategies we've focused on for this manual, obviously there are plenty of other ways to acquire real estate investment property. And there are also other ways to make money in the market without actually buying the property.

Let me give you a couple examples just to get you thinking about the possibilities:

- *You can acquire the loans*. Instead of acquiring the actual property, you can instead acquire the loans (especially distressed loans).

- *You can become a finder*. This isn't an acquisition or investment strategy, but it is a way to build a business. In other words, you can use it as a way to make money so that you can start buying your own investment properties.

  Here's how it works: Instead of buying the property yourself, you can earn a "finder's fee" by introducing investors to sellers (such as pre-foreclosure homeowners or other motivated sellers). Just be sure to check your local real estate laws to make sure this is legal in your area.

  *SECRET: You can also generate leads for investors and sellers, and get paid per lead. So instead of only getting paid when a deal goes through, you get paid for each qualified lead.*

  Alternatively, you can do all the research for investors on foreclosure properties. That means you inspect the property, run comparable sales reports, do title searches and so on. In other words, you do all the grunt work and get paid for your time.

  Again, these aren't investment or acquisition strategies – but they are ways to get paid to learn more about foreclosure investing until you've saved enough to start investing in your own properties.

### *Investment Strategies*

Once you've acquired your investment property, what should you do with it? Here again, there are plenty of options. The following are the most common holding strategies (and note that you can actually combine them):

- *Holding property for the long term*. Here you buy property that you expect to appreciate over the long term. Perhaps you buy relatively inexpensive property in an area that's growing quickly. You buy with the expectation that in five, 10 or more years your property will be in high demand – and thus command top dollar (so that you make a nice profit).

- *Holding property for a short time* (flipping property). This is where you buy property for cheap and then sell it quickly (sometimes immediately) for a profit. You may do this by purchasing property below market value (such as foreclosure property), or purchasing run-down homes that you can quickly rehabilitate and sell for a profit.

- *Renting property*. Finally, another common way to make money with investment property is by renting out the property. The rental may pay for the mortgage you have on the property as well as other expenses, or you may charge higher rents to make a profit. Either way, you can sell the property for a profit in the future.

### *Which strategy is right for you?*

The great thing about investing in real estate property is that there's an acquisition and investment strategy for every personality type, skill level, and income level. Here are some factors to consider:

- *Risk tolerance*: All investments require some amount of risk. You should choose a strategy that's compatible with your tolerance for risk.

  For example, if you're not comfortable estimating unknown factors, then you should focus on purchasing REO properties that you can inspect rather than foreclosure properties that are sold "as is."

- *Time*: some strategies require very little time, such as buying good-condition homes at least 20% below market value and reselling them quickly. Other strategies require a lot of your time, such as buying rehabilitation properties at foreclosure auctions.

- *Cash*: If you have access to a limited amount of cash, then you'll likely want to focus on strategies that allow you to flip the property fast and reinvest your capital.

- *Skills*: Taking an honest assessment of your skills and your interests will help you decide what strategy is right for you.

  Example: If you're an empathetic people person, you might find it easy to work with those who are in pre-foreclosure. If you have zero people skills, then you'd probably be better suited to buying at foreclosure auctions.

  Another example: If you're good with carpentry and construction, you may rehabilitate the properties yourself. Otherwise, you may outsource this task to someone else.

Now that you have good overview of your real estate investment options, let's look at the other factors that will affect your income when you invest in foreclosure property.

## When is the Best Time to Buy Foreclosure Properties?

The best time for an investor to buy properties is in a declining housing market (like we're in now). And that's because foreclosing properties, unemployment and even a recession all provide opportunity in the form of motivated sellers plus properties that you can purchase below the market value.

What's more, a declining market means there's an influx of properties on the market – and that means more options and opportunities for you. This is good news for home buyers and real estate investors who are looking for mid-term to long-term investments. When the property values increase in the future, investors can sell their portfolio for a profit.

On the other hand, this type of market isn't always ideal for those who are looking to quickly flip a property for a profit. Since there's more supply than demand in a declining market, any house you're selling will likely sit on the market for much longer than it would in an inclining market.

In other words, it’s much more difficult to make fast profits in a declining market (unless you find a property well below market value that you can move fast by reselling slightly below market value).

**What Should You Do During a Declining Market?**

As mentioned, now is not the best time to quickly flip, UNLESS you find very cheap properties that you can flip to those who are looking for a bargain. Depending on where you live, those properties might not come around very often, so you should seek out other investment strategies during this time.

So what should you do instead? Here are a few ideas:

- *Purchase mid- to long-term investment properties*. When the market goes up, you can sell and make a profit.

- *Purchase rental properties.* A declining market usually tends to create an increase in renters. That’s because people who are losing their homes or those who presently cannot afford to buy a home will need to rent. As such, rentals can be good investments in declining markets.

- *Add value to your existing properties*. Now is a good time to repair, remodel or even rehabilitate properties. If you have the money, you can purchase properties that need rehabilitation or remodeling. Then when the market improves, you can sell them for a profit.

- *Build your contact list*. Now is also a good time to network and develop relationships with investors, business partners, potential joint venture partners and others who can help you.

  Think of it this way: One good contact can make you as much money as one good investment property. Maybe more.

Which brings us to our next question:

**How Do You Build Your Contact List?**

You might see yourself as a lone wolf in your business. But networking with others can impact your bottom line. For example:

- You can build a network of people who will send you leads and tell you about real estate opportunities. These people might be professionals (such as the right real estate professional), or they just might be people who always know what's going on in the neighborhood.

  For example, if people know you're interested in purchasing pre-foreclosure properties, they might tell you if they know someone about to go into foreclosure – perhaps even before the Notice of Default is filed and the foreclosure becomes public. If the homeowner is willing to talk to you, you can make a deal with them before your competition even hears about the foreclosure.

- *You can build a network of professionals*. You may work with a broad range of professionals, such as lenders, real estate agents, contractors and more. Networking with these people may bring you leads and referrals, business opportunities, cash and even reduced rates on products and services.

- *You can build a network of investors*. If you're good at researching and rehabilitating properties but you have little access to cash, then you'll want to build relationships with investors.

So, how do you build up these contact lists and develop relationships with these people? Here are a few ideas to get you started:

- Attend seminars. Look around your area, state and region, and you'll probably find several seminars each year that are designed for real estate professionals. It's a great place to meet those of like minds – especially in the hotel halls and bars after the official day's events are over.

- Find them online on social networking sites like Twitter.com, ActiveRain.com, Tulia.com, FaceBook.com and similar.

- Use Google to find real estate professionals in your area who have blogs or are members of the above-mentioned sites. Then start networking with them online.

- Get to know your competition. You'll notice the same people regularly attending foreclosure auctions. Yes, this is your competition. But take time to get to know these folks. Maybe buy them lunch and talk. It's likely that you could work together for mutual benefit rather than always competing.

- Tell everyone what you do. Make sure all your friends, family, neighbors and colleagues know what you do. And encourage them to share any information they think might help you.

- Introduce yourself. If you don't meet professionals at events, then take the time to contact other professionals and introduce yourself. Offer to take them to lunch just to start building the relationship.

- Ask your current contacts to introduce you to their contacts. You can quickly build your list of contacts by networking through your current contact list.

One final tip – even if you don't currently see a need in your business to network with others, do it anyway. As you start scaling and growing your investments and your business, you'll likely find your contact list invaluable.

Now let's move on to other topics.

**Are Foreclosure Homes in Good Condition?**

As you've already discovered, the answer is "not necessarily."

And that's because someone who can't afford to pay their mortgage may also be neglecting maintenance and repairs due to lack of money. If they know they're going to lose their home, then it becomes even less likely that they'll plunge any money into the upkeep or repair of their home, as they know the money will be wasted.

In other cases you might find homes in poor condition because the previous homeowners were upset by the foreclosure and took out their frustrations by trashing, vandalizing or even trying to destroy the property.

Furthermore, delays can create problems on the property. If the house sits vacant – especially in a high-crime or otherwise poor neighborhood – it becomes a target for vandals, a place for the homeless to live and even a place for drug dealers and prostitutes to take up residence.

Even homes in good neighborhoods may have problems due to the houses being uninhabited. For example, the pipes can freeze, burst and cause a flood in the house because the heat was turned off in the winter.

When you're deciding how much to bid, assume the worst (or only lay down a deposit you can afford to lose). Alternatively, you may want to focus on purchasing less-risky homes, such as REO properties where you can submit contingencies with your offer.

**What is the Condition of Property in a Declining Versus Inclining Market?**

Because declining markets have more volume, you'll generally find homes that are in better condition (as opposed to inclining markets). In other words, you have more options and opportunities.

For best results, however, be sure to always do your research (as described earlier in this manual).

**Are All Foreclosure Properties Good Deals?**

Again, the answer is "not necessarily."

However, you greatly increase your chances of getting a good deal when you do your research, come up with a maximum bid that allows for profits even in a worst-case scenario, and stick to that bid (i.e., avoid emotional bidding).

There are plenty of reasons why a foreclosure property might not be a good deal, including (but not limited to) these factors:

- *The minimum bid is too high*. If the borrower defaults early on, or if the price of homes declines so that the borrower owes more than the house is worth, then the opening bid may be worth more than the current market value of the property. This is likely not only because of the amount of the outstanding debt, but also because the bank seeks to recoup its legal fees and other expenses at the foreclosure auction.

In other words, bidding even the minimum amount on a foreclosure property is no guarantee that you're getting a good deal.

- *There are expensive liens and judgments on the property*. If you haven't done a complete title search (and purchased title insurance when legally able to do so), then a good foreclosure bargain can turn into a financial disaster when you find out you owe five, six or even seven figures to clear out liens, back taxes and judgments.

- *There are extensive repair costs (some of them may even be unknown at the time you bid).* If you're buying "as is" properties at foreclosure auctions, you probably didn't even get a chance to inspect the properties. And that means you need to assume the property will need repairs.

  These repairs could easily mean that while the actual bid you put in at a foreclosure auction makes the property look like a good deal, once you pay the repairs your investment might be very close to the market value of the property. And that means little or no profits (or even a loss in some cases).

- *The property is in a bad neighborhood*. Another reason a property might be a bad deal is if it's in a bad neighborhood. Even if you can get the property well below market value – so cheap that you can also resell it below market value – most buyers aren't eager to buy property in high-crime or other bad neighborhoods.

  As the old saying goes, in real estate it's all about location, location, location.

## Could You Have Problems With the Utilities and Systems in the House?

Absolutely, which is why it's so important for you to do your research. That research will uncover some of these potential pitfalls. We've touched on some of the most common problems, which I'll reiterate here for your convenience:

- *The previous homeowner may strip out the copper plumbing and wiring to sell as scrap metal*. If you can't inspect the home prior to purchase, these are the sorts of unpleasant surprises you may encounter from time to time.

- *Frozen or burst pipes if heat shut off*. This in turn creates not only a plumbing problem, but usually a water damage problem as well.

- *You may owe payments for utilities that weren't paid*. If the previous homeowner skipped out on back payments and money owed to the utility companies, these bills become your responsibility before you can get a clean title.

## Should You Have a Real Estate Agent Represent You?

The answer to this question is **"Definitely."**

Generally, a real estate agent is not required in order for you to purchase a foreclosure property, just as they are not required for a tradition purchase. However, many of the reasons you want the representation of an agent in a traditional purchase are present – even magnified – when you're buying a foreclosure property.

You probably will not have an agent helping you if you're purchasing at a foreclosure auction, where agents aren't needed and usually aren't available since they can't earn their usual commissions at auctions. This is just another reason auction buying might not be for you.

There plenty of other reasons why you WILL DEFINITELY want to have an agent representing you, including but not limited to:

- *When you're buying HUD foreclosures or other government foreclosures*. In many places, the government requires that you use the services of a licensed real estate professional. Check your local HUD foreclosure rules to see if that's true in your area.

- *If you're buying distressed properties*. Sometimes people try to sell their homes during the pre-foreclosure process. Here they may use go the traditional route of using a real estate agent, in which case you may have to go through an agent as well. I would recommend having an agent represent anyone who is negotiating a short sale.

- *If you're buying REO properties*. Many times banks will use real estate agents to sell off their REO properties. This is when it MOST benefits you to have an agent, as those with experience will know when to bid, how much to bid, and how to help get your bid accepted.

# Chapter 9

## Conclusion: It's Time to Take Action!

Congratulations! You now know everything you need to know about finding, researching and buying foreclosure properties!

Let's quickly recap just some of what you learned throughout this manual:

- You learned all about foreclosures, the timeline and the steps involved in the process. You discovered when is the best time for you to purchase a foreclosure property.
- You discovered how hiring the right real estate agent to locate and research property can save you from financial disaster.
- You discovered how a typical foreclosure auction works, and what you need to bring to the auction in order to be a qualified bidder.
- You found out a quick and easy way to determine how much you should bid so that you always walk away with a great deal!
- You learned all about the market trends and forecasts to find out when is the best time to buy foreclosure properties.
- You'll learn about what you have to do after buying the property, such as closing the deal, getting insurance, evicting the former owners and more.
- You learned about the different acquisition and investment strategies, and which ones are right for you.
- You even found how to get paid while you're still learning about real estate investing!

Indeed, you now have the knowledge (and confidence) to start making money by researching, buying and reselling foreclosure properties!

But here's the thing:

You just read this great manual. You learned all sorts of profitable techniques and strategies. You might be tempted to just set this book aside for now so you can "digest" all the information.

I advise against it. And what I recommend instead is that you get started immediately.

You see, right now we're in a period where foreclosures are climbing. It's a great time for investors and bargain hunters, because there's a flood of relatively cheap property on the market right now. And that's why the sooner you get started, the quicker you can get your share of the foreclosure profits!

Does that mean you should run out to a foreclosure auction today and start bidding? Of course not! But you do need to start taking action immediately, such as:

- Finding the right real estate agent to work with
- Researching your County Recorder's office for Notice of Default and Notice of Sale listings.
- Looking through local newspapers for Notice of Sale listings.
- Researching properties you're interested in (title searches, drive by inspections, comparable sales reports, neighborhood research, etc).
- Attend a few auctions so you become familiar and comfortable with the process.
- And start working on securing funding (pre-approvals, hard money lenders, investors, etc).

In other words, the fastest way to get started is to just jump in. Then when that perfect property comes along, you'll be ready to bid, win… and pocket a profit!

Good luck!